

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Sterling Heights</u>	County Macomb
Audit Date June 30, 2005	Opinion Date September 23, 2005	Date Accountant Report Submitted To State: November 9, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mt. Clemens	State MI	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			



Comprehensive Annual Financial Report

Richard J. Notte
Mayor

Joseph V. Romano
Mayor Pro Tem

Richard L. Bracci
Councilman

Deanna Koski
Councilwoman

Steve Rice
Councilman

Maria G. Schmidt
Councilwoman

Barbara A. Ziarko
Councilwoman

Mark D. Vanderpool
City Manager

Brian S. Baker
Finance and Budget Director

Rick J. Sanborn, CPA
Financial Services Manager

Leslie D. Reinhart, CPA
Controller

For the Fiscal Year Ended June 30, 2005

Prepared by the Office of Financial Services, City of Sterling Heights, Michigan

City of Sterling Heights, Michigan

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Statistical and Continuing Disclosure Contents Section

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***CITY MANAGER'S COMPREHENSIVE SUMMARY OF FY2004/2005
AND A PROSPECTIVE LOOK AT
THE FUTURE OF THE CITY OF STERLING HEIGHTS***

Honorable Mayor, City Council, and Community Residents:

This executive summary is an analysis of the results of operations of the City of Sterling Heights and serves as the introduction to the City's Comprehensive Annual Financial Report for Fiscal Year 2004/2005. Contained within this report is pertinent information about the City's community, economy, and major initiatives completed during the past year, as well as a prospective look at the future.

STERLING HEIGHTS - AN ESTABLISHED AND RESPECTED COMMUNITY

The City of Sterling Heights was incorporated July 1, 1968 operating under a council-manager form of government. The City is governed by a mayor and a six-member city council, who individually serve two-year terms. Elections are non-partisan and are held the first Tuesday of November in each odd-numbered year. The mayor is a directly elected position, while the council candidate who receives the highest number of votes in the general election serves as the mayor pro tem. Under the council-manager form of government, the mayor and city council appoint two officials: the city manager and the city attorney. The city manager is the chief administrative officer of the City and is responsible for its daily operations.

The City of Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. At 36.8 square miles, the City is bordered by M-59 on the north, 14 Mile Road on the south, Hayes Road on the east, and Dequindre Road on the west. Geographically, Sterling Heights is the third largest city in the state. The City of Sterling Heights is a balanced community that is rich with cultural diversity, community wellness, and economic vitality. Sterling Heights continues to attract upscale housing developments, prestigious office complexes, and large commercial development projects. The 2005 estimated population for the City stands at 128,026, making Sterling Heights the state's fastest-growing community among cities with more than 100,000 residents. In terms of population, Sterling Heights is the fourth largest city in Michigan. City services are provided to 33,592 houses, 9,072 apartments, 6,479 condominiums, 1,693 mobile homes, and 2,590 commercial and industrial businesses. Of all communities nationwide with 100,000 people or more, Sterling Heights is one of the top 10 wealthiest.

TO STRIVE ON BEHALF OF ALL

Recognized as a progressive city, Sterling Heights' elected officials and professional staff are committed to providing outstanding services to city residents. The City's elected and administrative officials occupy leadership roles in state, regional, and national organizations, such as the Michigan Municipal League, Government Finance Officers' Association, and the International City/County Management Association.

The City of Sterling Heights has pursued a policy dedicated to attracting and retaining highly qualified management personnel. The City provides a level of compensation sufficient to attract and retain the management talent and expertise necessary to properly serve the community. A majority of our supervisory personnel hold graduate degrees in their respective fields with over 95 percent of our city department heads holding post-graduate degrees. In addition to these credentials, several of our employees have received special recognition for their abilities from their peers via election to state or national offices of professional associations and as instructors at professional seminars.

The City's current administration has been in place for several years and has taken many steps toward improved budgeting, controlled costs, and improved efficiency. Staff restructuring, pay increases mirroring inflation, and the use of privatization where economically feasible have kept salary expenditures manageable throughout the City. The 2005/06 approved budget includes funding for 630 full-time positions. For the first time in four years, the budget does not include the elimination of any full-time positions. Although the City has eliminated 19 vacant positions since 2002, saving \$1.2 million annually, full-time staffing has still increased by nine positions since 1996. As evidenced by the ICMA's Center for Performance Measurement data, the City continues to maintain one of the lowest employee to resident ratios of any community in the state and nation, which explains why the City's costs are less than 81 percent of other cities nationally. This illustrates the high productivity level of the employees in order to achieve high performance results. In addition, both City pension plans are fully funded.

A LIFESTYLE FOR EVERYONE

Comprehensive plans have been established that will continue to enhance and secure the quality of life in Sterling Heights for many years to come. These goals and objectives will serve to heighten the community's existing foundation of quality programs and services for residents. The City's annual strategic plan, "Sterling Vision," will guide the City in managing its capital improvement needs and equipment purchases over the next several years. With support from residents, the City of Sterling Heights continues to strive for excellence.

Most Informed City

Sterling Heights continues to implement technologies that will enhance customer service and improve efficiency: (a) the City is the first in Michigan to introduce an on-line permit system that allows contractors to obtain plumbing, electrical, and mechanical permits via the City's website; (b) the On-line Assessing and Tax Information System allows residents to obtain assessment roll information on any parcel in Sterling Heights. The online Internet service provides users with the ability to gain information on school districts, administration fees, and current tax bills; (c) residents and non-profit groups have the opportunity to publicize activities, such as garage sales, golf outings, and lost pet notices on Sterling Heights Television (SHTV) at no charge; (d) vendors conducting business with the City now have access to a new central bid notification system to obtain information regarding posting bids, quotes, construction notices, etc; (e) Sterling Heights residents can review vital voting information on the City's new on-line Voter information Center; (f) Sterling Heights is the first in the state to offer the "Water Bill Review and Payment" service, which allows residents to review historical accounting of water usage on their address, as well as having the option to pay their bill on-line; and (g) registration for Parks and Recreation and Library programs can now be accomplished online.

Safest Big City

The City enjoys an outstanding reputation for public safety. Continuous training for sworn personnel and police academy students contribute to the emphasis on security within Sterling Heights. Along with such programs as D.A.R.E., Neighborhood Watch, Child I.D., and Crime Prevention, the Police Department annually sponsors the Citizens' Police Academy, a nationally recognized program that trains residents to take an active role in community protection. According to FBI crime statistics, the City has continued to maintain its "Safest City in Michigan" ranking with crime decreasing overall in Sterling Heights. In addition, the Sterling Heights Police Department has recently acquired a new in-car computer system that will assist the officers in obtaining more information on potentially dangerous suspects. The CLEMIS (Courts and Law Enforcement Management Information Services) system links with area police departments and allows the sharing of vital information. Keeping crime rates down can be attributed to the City having the appropriate and necessary financial resources and a concerned public that cooperates with law enforcement.

Sterling Heights Fire Department became the first fire department in the world to achieve ISO 9001:2000 registration. This achievement expresses a commitment to quality that is internationally understood and accepted, thus attaining quality customer service and continual improvement. Additionally, the department has been the first in providing programs such as the administering of free flu shots to senior residents and introducing and adopting the first Private Water System Ordinance that requires private water systems to provide an annual maintenance program. The City of Sterling Heights is below average in the number of fires and fire loss nationwide. As part of the City's fire prevention and training efforts, the Fire Department successfully completed its seventh annual Civilian Fire Academy in which residents had the opportunity to receive hands-on experience on a variety of fire safety equipment and techniques. The Sterling Heights Fire Department continues to take the initiative toward offering advanced life support services, fire rescue and suppression activities, fire prevention/inspection/investigation, public education, hazardous materials response, and all forms of technical rescue.

Most Efficient City

The Sterling Heights Civic Center, with its inviting and functional campus-style layout, includes City Hall, Public Library, Police Department, 41-A District Court, Upton House, Recreation Center, and Senior Activity Center. The Civic Center has become the community focal point for municipal activities and cultural events with such landscaping enhancements as the placement of several sculptures throughout the complex and improved parking facilities. Construction of the Employee Memorial Fountain, outside City Hall, is currently underway and will serve as a lasting tribute and memorial to Sterling Heights employees who have died in the line of duty. Residents have access to a modern, state-of-the-art City Hall with offices and meeting rooms and a 200-seat City Council Chambers. The Public Library houses a cultural center with expansive user space. With the recent security enhancement in place, the Kenneth J. Kosnic 41-A District Court Building provides a safer and more secure environment for dispute resolutions within our jurisdiction. The 127-year old Upton House is a Michigan historical landmark and is one of the few surviving 19th century homes in Sterling Heights. Today, the Upton House is used for meetings and is available for rental to the public. The Recreation Center houses a vast array of programs to accommodate the needs of all city residents. Serving as a model program for neighboring communities, the Special Recreation Services provides recreation and leisure activities for the disabled. The Senior Activity Center provides a large selection of senior programs to keep our senior residents youthful and active.

In a continued effort to provide quality services within the city, the municipal phone system is equipped with direct dialing capabilities, thus allowing incoming calls to be quickly received and expedited. The City's general information phone number [586/446-CITY (2489)] serves as the City's "help" line. Establishing a "virtual" City Hall, Sterling Heights' "new and improved" official website (www.sterling-heights.net) can be accessed for informative city news and events. As a matter of fact, the City's "virtual" City Hall recently earned three distinctions: (1) the 2003/2004 Golden Web Award from the International Association of Webmasters and Designers for excellence in design, originality, and content, (2) the honor of being named as a "Top Pick" among municipal websites by *MuniNet Guide and Review*, and (3) the Apex Award for Publication Excellence for Most Approved Website. The City's e-mail address (cityhall@sterling-heights.net) provides the opportunity to conveniently communicate with City Hall by means of e-mail transmissions. The City also offers free automatic electronic mail service for residents who want up-to-date information on city activities. Residents can e-mail their request to the City to be included in the distribution of city announcements, press releases, and other city information. A *Job Posting E-Mail Subscription Service* is also featured on the City's website. This free service provides the opportunity for those searching for employment to register for automatic electronic notifications of available job positions with the City of Sterling Heights. In addition, the website now offers state-of-the-art Web video streaming technology featuring several distinct attributes including local businesses in the city. Sterling Heights' radio station, WPTC-1700 AM, provides residents with round-the-clock information on community activities and emergencies, including up-to-the-minute weather bulletins. Sterling Heights is the first city in Macomb County to debut a municipal radio station. Collectively, the redesigned city quarterly publication - *Sterling Heights Magazine*, the *Community & Neighborhood Living Guide*, city website, SHTV, city radio station, and sustained performance rating for city services will continue to support Sterling Heights as the most information-friendly community in southeastern Michigan.

Healthiest and Active City

A variety of athletic and instructional programs are provided to City residents through the Parks and Recreation Department. The City's health and recreation center promotes active lifestyles and enhances the coordinated youth/career age/senior exercise and health center programs. With Avis Neighborhood Park as the latest addition to the community's expansive 820-acre network of major parks and neighborhood recreation areas, the City now maintains 28 developed park sites and several other undeveloped park properties dedicated to recreational purposes. City parks provide various recreational and leisure opportunities from baseball diamond complexes to children's tot lots to miles of developed walking, jogging, and bicycle riding pathways. Named *Tree City USA* annually since 1985, Sterling Heights supports policies to protect the woodlands, wetlands, and flood plains remaining in the City. In its continuing effort to preserve green space and open spaces, Sterling Heights is the only city in southeast Michigan that maintains a municipal nature preserve, the Plumbrook Forest, located at M-59 and Dequindre Road.

The Sterling Heights Public Library maintains the highest per hour circulation rate in metropolitan Detroit, circulating over 640,000 items annually. The Library also offers compact discs, audiocassettes, computerized book and magazine catalogs, computer software for public use, and a collection of fiction books in CD format totaling well over 213,000. Recently, new English as a Second Language (ESL) videos and books were added to form an ESL collection which now complements the Library's International Language Collection. In addition, videotapes of City Council meetings are available for residents to check out and view at their leisure. The addition of coffee and beverage machines now provides visitors with a more relaxed and welcoming ambience when utilizing the facility. Computerized reference services provide access to millions of references, abstracts, and statistics. Residents can search the Suburban Library Cooperative's database of book and non-print material, along with an extensive on-line general interest magazine database from the comfort of their homes. From terminals within the Library, residents continue to enjoy the opportunity to "surf" the Internet. This past year alone, on-line computer uses totaled more than 441,000, which is over a 23 percent increase as compared to last year. A book drop box is located in the median outside the Library and provides increased services to our residents. This added convenience has been well received as it better accommodates our busy residents.

BEST PLACE TO RAISE A FAMILY

Sterling Heights has developed into one of Macomb County's leading cities offering a rich combination of commercial and residential life. This successful development results largely from the *Master Land Use Plan*, created by the City in the early 1970s, which provides direction for the community's growth and development. The *Master Land Use Plan* was updated this past year to address maximum usage of all property within the City, including residential, multi-family, office, commercial, industrial, and public facilities and roads. The City has enjoyed a solid reputation for municipal planning and growth management. To encourage redevelopment in commercial areas, the City passed its first ever mixed-use ordinance. The commercial and industrial business environment is an exceptional mix of service, product, and technological employers, which allows Sterling Heights to enjoy the extraordinary combination of business opportunities. Employment in the City has also become more diversified in terms of new industry and trained workers. Principal employers within the City include DaimlerChrysler Corporation, Visteon Corporation, Ford Motor Company, DTE Energy, and General Dynamics.

Property values in Sterling Heights remain high. As a result of Proposal A, homeowners have seen taxable property assessment increases capped at 2.3 percent in 2005, despite an average 3.8 percent increase in residential market values. In fact, the typical homeowner in Sterling Heights has not received a City millage increase for the 14th consecutive year. The millage rate of 10.625 mills continues to be at its lowest level since 1974. The City has provided property tax relief. Prior to 2004/05, the City had decreased taxes for eight straight years, saving the average resident \$394 in City property taxes. An important component of government, the Board of Ordinance Appeals has been effective in promoting and enforcing quality community appearance standards which directly affect property values. With the televising of the Board of Ordinance Appeals meetings and the efforts of the administrative Code Committee, the City continues to aggressively pursue property maintenance enforcement.

Sterling Heights is a pre-retirement community attracting middle class homeowners with job security and seniority. Many Sterling Heights' homeowners are choosing to reinvest and renovate existing homes as evidenced by the 876 permits issued for residential home additions and/or improvements as compared to the 546 new housing permits issued this past year. The total number of residential permits in 2004/2005 has culminated in representing an investment of over \$56.1 million. During the year, plans were reviewed and approved for innovative single family housing including Hidden Meadows, located at Dequindre between 18 and 19 Mile Roads, Plumcreek Estates on Dodge Park Road between Plumbrook and 16½ Mile Roads, and Woodland Estates, located on Schoenherr Road between Butler Drive and Clinton River Road. Proposed multiple family developments include North Pointe - Phase III, located on Ryan Road between 19 Mile Road and Dobry Drive, and Stratford Village North II, located on 19 Mile Road between Saal and Hayes Roads. These developments confirm that the community continues to invest in new residential construction.

The combination of established neighborhoods and contemporary subdivisions in the community provides housing options ranging from modest to upscale with values over \$500,000. The typical home in Sterling Heights for 2004/2005 had a taxable value of \$76,250. The total tax for that home in the Utica Community School District was \$2,262, while the total tax for that same home in the Warren Consolidated School District was \$2,760. Of the total tax dollars collected, the City received only \$810 from the average homeowner for a full line of City services. It is estimated that the total average tax for 2005/2006 will be \$2,324 and \$2,839, respectively.

Sterling Heights continues to attract and retain business and industry. More than 2,500 commercial and industrial businesses, including three of the top 25 "Fortune 500" companies (DaimlerChrysler Corporation, Visteon Corporation, and Ford Motor Company) are located in Sterling Heights. The City's other major principal taxpayers include DTE Energy, Lakeside Associates, General Dynamics, and Detroit News Agency. It is this impressive mix of commercial and industrial businesses that has created the City's enviable economic base and low millage rate.

Economic development efforts in the community continue to flourish. Sterling Heights continues to benefit from the expansion of current local employers, as well as additional retail and commercial developments. More than \$700 million in new investment has occurred within the community in recent years, creating more than 2,000 jobs and retaining many others. A number of industrial, commercial, and retail developments approved during the past year include: Cinema 20 Theatre at Market Place Shopping Center, an 81,340 square foot theater seating 4,160 located on the northeast corner of 15 Mile Road and Van Dyke; Allegra Industrial Building, a 91,558 square foot building located on Sims Road between Mound Road and Conrail; Brookshire Office Plaza, a proposed 43,324 square foot building located on Schoenherr Road between 19 Mile and Canal Roads; Waltonwood at Lakeside, a 144,000 square foot senior and assisted living development consisting of 197 units located on Lakeside Circle; and Abuelo's Restaurant, a 7,400 square foot restaurant located on Schoenherr Road between Waterbury and Southcove Drives.

PERFORMANCE MATTERS

The City's strengths continue to be exceptional strategic planning and benchmarking, as well as strong financial management, sound finances with surpluses and significant fund balances stimulated by economic growth, moderately low tax rates, low debt levels, and strengthened wealth levels among its residents. It is with this goal of strong financial management in mind that several of this year's awards were received. Sterling Heights was recognized as being one of just two cities in Michigan to receive all three Government Finance Officers' Association (GFOA) awards: (1) For the 18th consecutive year, Sterling Heights has achieved national recognition with the *Distinguished 2005 Annual Budget Presentation Award*; (2) the 2004/2005 Popular Annual Financial Report/City Calendar (PAFR) has earned eight years of recognition for providing residents with an easy-to-read report on the City's economic condition for the past year; and (3) the 2004/2005 Comprehensive Annual Financial Report (CAFR) has attained national recognition for the past 17 years. In addition, Sterling Heights is the only city in the nation to earn the "Outstanding" designation in all award categories for its budget documentation.

The City of Sterling Heights enjoys outstanding bond ratings from the following ratings agencies: "Aa2" from Moody's, "AA" from Standard & Poor's, and "AA+" from Fitch. We are proud to report that these ratings are the highest in the state for communities with a population greater than 100,000.

The City takes pride in providing various community functions and events throughout the year to residents who can enjoy both City services and local camaraderie. The grand event highlighted this past year was the City's "Sterlingfest 2004." A huge success, this annual event once again provided members of the community the opportunity to take pleasure in the summer festivity of fun, crafts, and music without having to leave the city limits.

The City has received many awards and recognitions from various professional associations and municipal service organizations for innovative approaches to service delivery and quality improvements:

- ❖ The City of Sterling Heights has been selected as one of “Metropolitan Detroit’s 101 Best and Brightest Companies to Work For!” by the Michigan Business and Professional Association.
- ❖ According to a new study released by American City Business Journals, Sterling Heights is ranked 7th in the nation and 2nd in Michigan on its list of the least socio-economically stressed large U.S. cities.
- ❖ The City of Sterling Heights was rated an A+ and “9th Best Family Friendly Suburban City in the U.S.” by Population Connection, a Washington DC nonprofit environmental organization.
- ❖ Sterling Heights is the safest large city in Michigan and the sixth safest city in the nation with populations greater than 100,000 as determined by Morgan Quinto Press.
- ❖ Sterling Heights City Center received national distinction as one of “America's Great Community Places and Public Spaces” by Project for Public Spaces, a national nonprofit educational organization.
- ❖ Sterling Heights was recognized by the National Weather Service as a “Storm Ready Community” because of its proactive measures in preparing for local hazardous weather.
- ❖ *Ladies Home Journal* named Sterling Heights the “2nd Best Michigan City” and the “16th Best American City” for women to live and work.
- ❖ *Crain’s Detroit Business* recently listed Sterling Heights among the “hot spots” for residential development in southeast Michigan.
- ❖ For the past 12 years, Sterling Heights has maintained the lowest combined water and sewer rates in Michigan for cities having over 25, 000 residents.

I would like to thank the mayor and city council, department directors, and employees responsible for contributing to the success and sound financial position of the City. Finance and budget director Brian Baker and his staff are especially recognized for their teamwork, cooperation, and commitment to the principles of fiscal management and propriety. Special recognition is also extended to Mary Jo Dombrowski, management services specialist, for her assistance with this report.

The City's employees are working together to preserve and enhance our community. Our mission is to make Sterling Heights the nation's most livable and best-managed city by providing courteous and quality services through teamwork, innovation, and continually striving for excellence on behalf of all.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark D. Vanderpool", with a long horizontal line extending from the end of the signature.

Mark D. Vanderpool

September 23, 2005

Honorable Mayor, City Council, and Citizens
of the City of Sterling Heights
40555 Utica Road
P.O. Box 8009
Sterling Heights, MI 48311-8009

In compliance with State law, this report was prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and regulations set forth by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, the City Charter, and the Government Finance Officers Association. Pursuant to these requirements, the Office of Financial Services is pleased to submit this Comprehensive Annual Financial Report of the City of Sterling Heights for the fiscal year ended June 30, 2005.

The accuracy and reliability of the accounting system is dependent on adequate internal control. Internal control is a plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise accounting control over assets, liabilities, revenues, and expenditures. To provide a reasonable basis for making the following representation, management of the City of Sterling Heights has established a comprehensive internal control framework that is designed both to protect the City's assets from losses, theft, or misuse and to compile sufficient reliable information for the preparations of the enclosed financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. Therefore, the accuracy, completeness, and fairness of the financial data herein, including all disclosures, rests with the City's management, who assumes full responsibility for the information presented in this report and asserts that to the best of our knowledge and belief this financial report is complete and reliable in all material aspects.

In 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosures*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. GASB No. 40 is an amendment to GASB Statement No. 3 and is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet obligations as they become due. In compliance with the requirements contained in GASB No. 40, the City of Sterling Heights adopted the new disclosure format (see Note 3 of the notes to the basic financial statements) with this financial report.

In 2004, the GASB issued Statement No. 44 (GASB No. 44), *Economic Condition Reporting: The Statistical Section*. GASB No. 44 establishes the objectives of the statistical section and the categories of required information. The categories required include financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. GASB No. 44 adds new information that various users of financial statements identified as important and eliminates that considered less informative. The most significant change is the information that incorporates the government-wide, accrual-based information as required under GASB No. 34. Although not required to comply with GASB No. 44 until the issuance of the June 30, 2006 financial statements, the City of Sterling Heights has elected to implement this statement with this financial report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany these basic financial statements in the form of a management's discussion and analysis (MD&A) narrative. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Sterling Heights' MD&A can be found immediately following the report of the independent auditors.

Financial data presented is designed to provide the reader with information to assist in determining both the long-term fiscal health of the City and the City's ability to meet obligations on a short-term basis. The financial statements contained in this report are designed to fairly set forth the financial position and results of operations of the City and include all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs.

Independent Audit

The City Charter and State laws require an annual audit of the financial records and transactions of the City by a firm of independent licensed certified public accountants. This requirement has been complied with and the City's financial statements have received an "unqualified opinion" from Plante & Moran, PLLC, certified public accountants. An unqualified opinion is the best opinion that an organization can receive on its financial statements. It indicates that the auditor's examination has disclosed no conditions that cause them to believe that the financial statements are not fairly stated in all material respects.

In addition, during the current year, an audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996 (P.L. 104-156). The auditor's reports related specifically to the single audit are issued under separate cover.

Reporting Entity and Services

As required by GAAP, these financial statements present the City of Sterling Heights and related component units. The individual component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

This report includes all funds of the City and encompasses a full range of municipal services including administrative, public information, district court, police, fire, code enforcement, building, development and planning, engineering, public works, parks and recreation, library, and water and sewer services.

Report Organization

This Comprehensive Annual Financial Report was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

Introductory Section - This section introduces the reader to the City of Sterling Heights and to this report. Included are a letter from the City Manager highlighting economic conditions and major City initiatives, this transmittal letter with continuing disclosure reporting enhancements, the City's organizational chart, a list of principal officials, and a fund organization chart.

Financial Section/Basic Financial Statements - The independent auditor's report, management's discussion and analysis letter, government-wide financial statements, combined fund financial statements, component unit financial statements, and notes to the financial statements are included here. These are the City's basic financial statements and provide an overview for readers who require less detailed information than is contained in the balance of this report.

Financial Section/Required Supplemental Information - This section contains a more detailed comparative analysis of actual revenues and expenditures versus the 2004/2005 budgets for the General and Major Roads Funds. Additionally, there are schedules showing the funding progress of both the General Employees and the Police and Fire Defined Benefit Retirement Systems.

Financial Section/Other Financial and Supplemental Information - This section contains combining statements for all of the City's nonmajor, fiduciary, and agency funds as well as budget to actual comparative statements for all nonmajor governmental funds and the major Capital Projects Funds.

Statistical and Continuing Disclosure Section - Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect social and economic data, financial trends, and the fiscal capabilities of the City.

The continuing disclosure schedules in this section reflect information in accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission and as set forth in the Continuing Disclosure Certificates for issued debt.

Accounting System and Budgetary Controls

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "fund basis." Each fund is a distinct, self-balancing accounting entity. A list of funds used by the City is found later in this section and a discussion of the nature of each fund type is found in Note I to the basic financial statements.

An annual budget is adopted in accordance with the legal requirements set forth in the Uniform Budgeting Act, State of Michigan P.A. 621 of 1978. Also required under this Act is a budgetary control to ensure that expenditures do not exceed appropriations. The City maintains this control through the use of an encumbrance system. As purchase orders are issued, corresponding amounts of appropriations are reserved by the use of encumbrances so that appropriations are not overspent. Budget transfers may be made within a budgetary center with approval of the Office of City Management. City Council approves necessary transfers between budgetary centers or from fund balance periodically. In addition, the Office of City Management monitors department budgets on a monthly basis. Department directors and office managers must justify variances.

General Fund

Since the General Fund receives all City revenues not designated for specific use by state statutes or City Charter, and accounts for most of the services provided to residents, the following is provided to give the financial statement reader a more detailed analysis of the activity within the General Fund.

Revenues and Other Financing Sources	Amount	Percent of Total	Increase (Decrease) from June 30, 2004
Property taxes	\$ 47,828,337	62.9	\$ 1,973,206
Federal sources	346,606	0.5	166,342
State sources	12,099,759	15.9	(230,536)
Fees and permits	2,012,360	2.6	(305,760)
Fines and forfeitures	2,801,034	3.7	97,878
Charges for services	6,695,039	8.9	360,317
Interest income	774,353	1.0	448,769
Special assessments	2,141	-	(7,230)
Rental income	1,566,845	2.1	268,049
Cable revenue	1,319,937	1.7	95,159
Other	556,609	0.6	190,953
Subtotal	76,003,020	99.9	3,057,147
Transfers from other funds	81,360	0.1	(5,750)
Total	<u>\$ 76,084,380</u>	<u>100.0</u>	<u>\$ 3,051,397</u>

Overall, General Fund revenues increased 4.2 percent from the prior year. Property taxes in the General Fund increased by 4.3 percent due to new construction, a 2.3 percent inflationary valuation adjustment for existing property, and a .0449 mills (0.4 percent) increase in the combined (operating, refuse, and Act 345 police and fire retirement) millage reported in the General Fund. However, the overall millage rate levied by the City remained the same in fiscal 2005 due to an offsetting reduction in the mills levied related to debt service. Federal sources increased by 92.3 percent due to an increase in operating grant dollars related to homeland security and asset forfeitures received from the federal government. Fees and permits were down 13.2 percent due to a decrease in revenues related to building, electrical, and plumbing permits. Charges for services revenue and rental income increased by 5.7 percent and 20.6 percent, respectively, due to increased labor and equipment cross-charges related to snow removal and assistance provided to the Detroit Water and Sewerage Department related to a break in one of their main sewage transmission lines. Interest income was up 137.8 percent due to increased short-term interest rates paid by the fixed income market and the implementation of an investment strategy designed to capture greater returns in a rising interest rate environment. Other income increased 52.2 percent due to receipt of reimbursements from the Detroit Water and Sewerage Department related to work performed and equipment used by City staff on the break in one of their main sewage transmission lines.

Expenditures and Other Financing Uses	Amount	Percent of Total	Increase (Decrease) from June 30, 2004
General government:			
City administration	\$ 7,765,802	10.3	\$ 809,008
Community and information services	2,276,636	3.0	142,404
41A District Court	2,472,160	3.3	129,940
Public safety:			
Police department	24,700,513	32.5	1,624,489
Fire department	13,645,656	18.0	942,124
Public Works:			
City development	4,475,695	5.9	107,298
Public works	5,876,779	7.8	641,292
Refuse collection	4,853,150	6.4	193,912
Recreation and culture:			
Parks and recreation	2,195,032	2.9	29,775
Public library	2,474,084	3.3	86,306
General expenditures	2,639,261	3.5	(554,020)
Subtotal	73,374,768	96.9	4,152,528
Transfers to other funds	2,360,094	3.1	(391,946)
Total	<u>\$ 75,734,862</u>	<u>100.0</u>	<u>\$ 3,760,582</u>

Total General Fund expenditures increased by approximately 5.2 percent over the prior year. Major factors in the increase were a \$1,028,015 or 3.2 percent increase in wages in compliance with existing labor agreements, a \$121,957 or 9.2 percent increase in overtime due to increased snow plowing and assistance provided to the Detroit Water and Sewerage Department related to a break in one of their main sewage transmission lines, a \$659,239 or 18.6 percent increase in the required contribution to the Police and Fire Retirement System, and a \$1,783,251 or 23.1 percent increase in health care costs. The primary offset to these increases was a \$391,946 decrease in transfers out.

Additionally, the General Fund accounted for the extraordinary item related to the settlement of the lawsuit brought by Hillside Productions, Inc. The City paid the final \$6,000,000 of the settlement (see Note 9 for additional information).

Special Revenue Funds

Special Revenue Funds are so classified because some authority other than the City requires special legal restrictions and accounting procedures. The Special Revenue Funds of the City include the following:

Major Roads - Gas and weight tax revenues received in this fund are used for construction, maintenance, and other authorized operations pertaining to all streets classified as “major” within the City. Total revenues and other sources increased during the current year by \$232,400, due to the transfers in from the General Fund (\$500,000 in 2005 versus \$0 in 2004). This increase was offset by a decrease in revenues from the State (\$160,124). Total expenditures decreased by \$1,470,586 due to a decrease in capital outlay (\$1,861,560) and an offsetting increase in major roads maintenance (\$390,974).

Local Roads - This fund provides for the construction, maintenance, and snow and ice control for streets classified as “local” within the City. Total revenue and other sources increased by \$1,495,343. The increase was primarily due to an increase in transfers in from the Major Roads Fund (\$550,000) and the Road Bond Construction Fund (\$881,370). Total capital expenditures increased by \$1,110,608 for local roads infrastructure. Local roads maintenance and repairs increased by \$1,800,814 due to an aggressive emerald ash borer eradication program and increased snow removal.

Budget Stabilization Fund - In 1999, the City Council created a Budget Stabilization Fund to serve as a rainy day fund for the purpose of preventing future deficits, revenue shortfalls, reductions in services, or to cover expenditures arising from natural disasters. During fiscal year 2005, no additional money was added to this fund due to conservative estimates of General Fund revenues. The balance available in the fund remains at \$750,000.

Community Development Block Grant - The City of Sterling Heights is an entitlement community under the federally administered Community Development Block Grant Program. As such, the City receives a proportionate share of monies appropriated by Congress. The funds can only be used for activities that are directed to fulfilling specific objectives as reflected in the current Housing and Community Development Act. The major activities in this fund include improvements to local park(s) including playground equipment, Senior Minor Home Chore, and various Repair Program ventures.

Land and Water Conservation - This fund is used to reflect all activities related to the acquisition and development of parks. Projects accounted for in this fund include park improvements, purchase of park playground equipment, and the proceeds from the sale of City-owned property, which are dedicated to park-land acquisition and improvements.

Capital Projects Funds

There are two Capital Projects Funds within the City's financial statements. The General Improvements Fund includes all major capital improvement projects of the City other than special assessment, road, and Enterprise Fund projects. A transfer from the General Fund of \$943,980, federal and state sources of over \$1 million, and operating revenues, funded over \$3.4 million of capital expenditures. Included in these costs were renovations to various City buildings, sidewalk repairs and replacement, improvements, and construction related to various storm drains and technology improvements within various City buildings. Also accounted for in this fund is the purchase of capital equipment and vehicles for various City departments.

The Road Bond Construction Fund was established to account for road-related construction activity financed with bond proceeds. Bond proceeds of \$5.3 million funded total expenditures of just over \$3.8 million to complete the 18½ Mile Road connector to the Van Dyke freeway, 18½ Mile Road bridge over the Plumbrook drain, and the 17 Mile Road Bridge over the Conrail lines, as well as reconstruction of various other major roads.

Enterprise Fund

For the fiscal year ended June 30, 2005, water and sewer operating revenue increased by 10.9 percent due to increased rates. Operating expenses increased 8.9 percent due to water and sewer rate increases from the City of Detroit. Nonoperating revenue decreased 9.8 percent due to a decrease in tap fees and frontage charges, which was offset by an increase in interest income. Contributions from developers decreased by 47.9 percent due to fewer new developments throughout the City.

	Year Ended June 30		Increase
	2005	2004	(Decrease)
Operating revenues	\$ 22,619,205	\$ 20,385,299	\$ 2,233,906
Operating expenses	<u>28,142,434</u>	<u>25,829,284</u>	<u>2,313,150</u>
Operating loss	(5,523,229)	(5,443,985)	(79,244)
Nonoperating revenues - Net	<u>5,526,782</u>	<u>8,962,952</u>	<u>(3,436,170)</u>
Change in net assets	<u>\$ 3,553</u>	<u>\$ 3,518,967</u>	<u>\$ (3,515,414)</u>
Number of customers:			
Residential	34,535	34,529	6
Commercial/Industrial	3,710	3,741	(31)
Approximate number of cubic feet sold (000s)	811,252	815,645	(4,393)

Total net assets at June 30, 2005 were basically unchanged at \$168,052,773.

Internal Service Fund

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis.

Self-insurance Fund - The Self-insurance Fund was established in 1986 and is used to record the self-insurance activities of liability and property claims, health care, workers' compensation, and short-term disability. Revenues in the Self-insurance Fund are the result of charges to the General and Water and Sewer Funds based on underwriters' estimates or the City's estimates using historical data. Expenses in this fund include reinsurance charges, administrative fees, claims expense, and provisions for both reported and unreported claims. The provision for incurred but not reported claims (IBNR) is \$1,830,109 and is reported as part of the provisions for uninsured losses and liabilities. There was a decrease in net assets for the year of \$1,757,511 due to a transfer to the Settlement Bond Debt Fund to cover the annual debt service, bringing total net assets to \$3.8 million at June 30, 2005, enabling a reserve for future self-insurance needs.

Fiduciary Funds

Fiduciary Funds are established to account for assets held by the governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units and/or funds. The Fiduciary Funds of the City include the following:

Pension Trust - General Employees' Retirement System - The actuarially determined value of assets available for benefits in the General Employees' Retirement System on December 31, 2004 (the date of the most recent actuarial valuation) was \$102,510,129. A five-member board of trustees manages this fund under the provisions of the City of Sterling Heights defined benefit pension ordinance as amended by various labor agreements. This pension fund was 124.8 percent funded as of December 31, 2004.

Pension Trust - Police and Fire Retirement System - The actuarially determined value of assets available for benefits as of December 31, 2004 (the date of the most recent actuarial valuation) was \$187,265,961. A five-member board of trustees manages this system under the provisions of P.A. 345 as amended by various labor agreements. This pension fund was 120.2 percent funded as of December 31, 2004. A separate tax was levied to provide for the City's \$4,204,831 police and fire pension contribution for the fiscal year ended June 30, 2005.

Retiree Medical Benefits Fund - The Retiree Medical Benefits Fund was established in fiscal 1989 to account for medical benefits provided to employees during retirement. In fiscal year 2002, the City Council adopted the provisions of Michigan Public Act 149 of 2001, establishing the Retirees Medical Benefits Fund as a trust, and the fund was reclassified from an Internal Service Fund to a Fiduciary Fund. Revenues reported this year were based on actuarial estimated contribution rates of 7.25 percent and 10.75 percent of budgeted payroll for general employees and police and fire employees, respectively. The deductions of \$4,262,652 reflected in this fund relate to medical benefit payments for all eligible retirees and provisions for incurred but not reported claims of \$924,646. Net assets at June 30, 2005 were \$7,761,218.

Agency Funds - There are two Agency Funds of the City with total assets of \$5,323,262. These include funds for tax collections and a General Agency Fund used primarily for deposit of developer fees.

Component Units

Component units, as defined by GASB No. 14, are so classified due to their relationship with the primary government relative to financial accountability of the reporting entity. City component units include the following:

Economic Development Corporation - The City of Sterling Heights Economic Development Corporation is organized pursuant to Act 338 of the Public Acts of 1974. Its general purpose is to assist and retain local industries and commercial enterprise in order to strengthen and revitalize the economy of the City. The core Economic Development Corporation membership is a nine-member board with up to two additional members, all of which are appointed by the City Council.

Brownfield Redevelopment Authority - This fund was established in fiscal year 2001 to account for projects that will improve environmentally distressed areas within the City. Recent legislation broadens available incentives for these types of projects, and the activity within this fund during the past year was to promote the opportunities in the hopes that projects will be approved in future years.

Cash Management

The City complies with Public Act 20 of 1943 (as amended) of the State of Michigan in its cash management activities. Idle cash in all funds, exclusive of the pension systems and the Retiree Medical Benefits Fund, is invested in certificates of deposit, governmental obligations, bank-pooled accounts, and commercial paper. Interest income for the governmental and proprietary funds for the current fiscal year is \$1,770,698, an increase of \$528,997 over the fiscal year ended June 30, 2004.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In the state of Michigan, municipalities are not required to insure all bank deposits; however, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

The City has an investment committee and an investment policy. The investment committee, which consists of the City Treasurer, Finance and Budget Director, Financial Services Manager, and Controller, meets periodically to evaluate the City's investment activity.

Tax Rate Limitations

The City Charter provides tax rate limitations for general operations. In addition, the City may levy taxes in excess of the Charter limitation for refuse and police and fire pension requirements pursuant to State law.

Purpose	Authority	Rate (per \$1,000 of State Equalized Valuation)
General Operating	City Charter	\$12.00 *
Refuse Collection and Disposal	Act 298, P.A. of Michigan 1917, as amended	3.00
Police and Fire Pension Requirements	Act 345, P.A. of Michigan 1937, as amended	Amount required to make contribution

* The maximum permitted rate per the Headlee amendment of the Michigan Constitution for fiscal year 2005 was \$10.8395.

In addition, Article IX, Section 6 of the Michigan Constitution permits the City to levy a millage in excess of the above for (a) all debt service on tax-supported bonds issued prior to December 23, 1978, or tax-supported issues that have been approved by the voters for which the City has pledged its full faith and credit and (b) operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit.

Risk Management

The City's risk management program is designed to protect financial and human resources in the most cost-effective manner possible. This is accomplished through exposure identification, risk evaluation, risk control, risk funding, and risk management administration. For Sterling Heights, there are six areas of risk management that receive the majority of attention: loss control and safety, property, liability, workers' compensation, employee benefits, and self-insurance administration.

Although the City self-insures many risks, excess insurance is purchased to protect against the financial effects of a catastrophic loss. Liability excess coverage provides up to \$15,000,000 of limits. Property coverage insures \$80,649,000 of property values. All buildings and contents are insured at replacement cost value. Liability and property self-insured retentions are \$500,000 and \$50,000, respectively. Excess insurance of workers' compensation is purchased at statutory levels, with a \$150,000 per occurrence self-insured retention. Reinsurance for the self-insured health care risk is purchased to limit City liability to \$200,000 per employee/contract per year. Health care expenditures account for 58 percent of all self-insurance expenditures during fiscal 2005. The short-term disability risk is fully self-insured and self-administered. Through a combination of self-insurance and insurance, the City has been able to provide the financial resources required to manage the various risks associated with a large city.

Prospects for the Future

The City remains proactive and strategically plans well into the future. Annually, the staff prepares a comprehensive capital-planning document called the "Municipal Improvement Plan." This document captures and explains all planned projects and improvements extending five years into the future. Additionally, estimated expenditures, funding sources, chronological event sequences, associated projects, and their costs supplement this information. The Municipal Improvement Plan provides the financial planning focus for progress into the future for the community.

Legislation - Legislation has and will continue to impact the City of Sterling Heights well into the future. Through its involvement on the committees of the state chapter of GFOA (Governmental Finance Officers Association), the City is actively involved in legislative proposals affecting the financial activities of municipalities.

Personal Property Tax Issues - In 1999, the State Tax Commission adopted multiplier tables for all personal property assets. These tables are to be used by assessors as a guide in determining the true cash value and assessed/taxable value of these assets. Multiplier tables H and I, which were developed to value electric transmission/distribution and gas distribution assets, became the subject of extensive litigation regarding the principles used to develop the tables. On April 5, 2002, the Michigan Tax Tribunal decided that, except for revisions to Table I, the State Tax Commission did not use incorrect principles in the adoption of their new tables. On January 20, 2004, the Michigan Court of Appeals upheld this decision. Detroit Edison and Consumers Energy both appealed their assessments from 1997 through 2003. Because both companies had made partial payments on their 2000 through 2003 taxes based on the revised tables, there will be no significant refund owed for these years. The issue of the assessments used for 1997 through 1999 is before the Michigan Tax Tribunal. It is the position of the Sterling Heights assessor that no refunds should be awarded based on the revised tables for years prior to the State Tax Commission recommendation to use them.

On December 13, 2002, representatives from the Ford Motor Company filed with the State Tax Commission claiming that they paid personal property taxes twice on the same assets in the 2000 and 2001 tax years based on a sale and lease back of assets that were not removed from their books. City tax revenues at issue for the two years are approximately \$332,800. The City has contracted with a firm specializing in personal property audits to examine the personal property returns filed by Ford Motor Company for the 2000 through 2004 tax years, including the issue of sold and leased-back assets. If the examination confirms that the assets were taxed twice, the City would be liable to refund the amount of the overpayment. However, the examination process often discovers under-reported personal property assets, which could mitigate the amount required to be refunded.

In January 2004, at the request of the City Assessor, the City Council approved participation in a Michigan Department of Treasury program that provides funding assistance to local communities to conduct personal property tax audits of local businesses. The City entered into a one-year contract with a firm specializing in personal property tax audits to conduct examination of the records of the 776 businesses with more than \$100,000 in personal property assets. A second year was added to the program in September 2004. Preliminary results confirm that the combination of the State grant funding and new City tax revenue will cover all of the City's costs for the auditing program.

Technology Plan - Due to the high level of dependence on technology, the City is taking the necessary actions to maximize the available resources to provide all municipal employees with the ability to work more efficiently. The City has now completed implementing the fifth year of its five-year comprehensive Information Technology Strategic Plan. Over the past five years, most of the plan has been implemented. Plans are currently underway to update the plan as the Office of Information Technology is currently reviewing the future needs of all City departments.

The five-year plan was prepared to address the future technology needs of the municipality. The multi-year plan addressed every aspect of technology across the organization. Several major projects identified in the strategic plan were completed in prior years, including the following:

Continued improvements to the City's Website, which includes access to many City services:

- Online Parks and Recreation registration with credit card payment option
- Online utility bill account look-up and credit card payment option
- Hand-held computer for Building, Code Enforcement, and Fire Inspectors
- Replaced and updated network file servers and all department personal computers
- Mobile Data computers for Police and Fire vehicles
- Upgrade to the Police 911 telephone system
- Electronic City Council Agenda Packet

Future information technology plans include participating in the County-wide 800-megahertz Public Safety Radio System, a document imaging and management system, and ongoing replacement of department personal computers. Attention will be given to upgrading the City's network hardware to allow for future applications and to speed the flow of information between departments.

Major Projects - This past year, the City completed a number of major capital improvement projects, including the following:

- Clean out of the Gibson Drain Retention Lake
- Widening of 18½ Mile Road and development of the Van Dyke Traffic Circle
- Repairs to the 17 Mile Road Bridge over the Conrail railroad tracks
- Intersection improvements to 19 Mile and Saal Roads
- Paving of Elmridge Drive
- Expansion of Nelson Park North
- Completion of the Bike Hike Trail from Riverland Drive to Van Dyke
- Installation of three new soccer fields

Financial Strength - On the budgetary basis, the General Fund revenues have slightly exceeded expenditures for the past 10 years. As a whole, the City of Sterling Heights is in a better financial position to withstand any future constraints than most Michigan municipalities. While operating with a total millage of 10.625 (the lowest in 31 years or since 1974, and the 38th lowest of a total of 43 communities in the area), the resulting undesignated, unreserved fund balance equates to approximately 15 percent of the 2005-2006 fiscal year General Fund budget. The 8.0957 operating levy is well below the 12-mill limitation in the City Charter, providing the City Council with taxing capacity. The creation and prior year funding of a Budget Stabilization Fund places an emphasis on future planning and maintaining a visionary perspective on the City's financial strength and soundness.

Conservative revenue, investment, debt, and reserve budget policies are in place to maintain a controlled spending approach that the residents of Sterling Heights have come to expect from their City government. We believe our continued financial integrity and stability, as well as the vision and forthright perspective of our elected leaders and administration, will enable Sterling Heights to weather any uncertainties of the future.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sterling Heights, Michigan for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of State and local government financial reports.

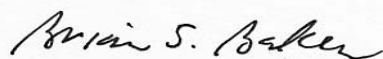
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Sterling Heights, Michigan has received a Certificate of Achievement for the last 17 consecutive years (fiscal years 1988-2004). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of the entire staff of the Office of Financial Services. We wish to express our sincere appreciation to each of them and to various employees from other offices for their cooperation and assistance. Appreciation is also expressed to the City Council and City Manager for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

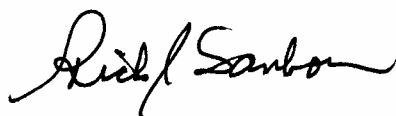
Respectfully submitted,



Brian S. Baker
Finance & Budget Director



Leslie D. Reinhart, CPA
Controller



Rick J. Sanborn, CPA
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sterling Heights,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



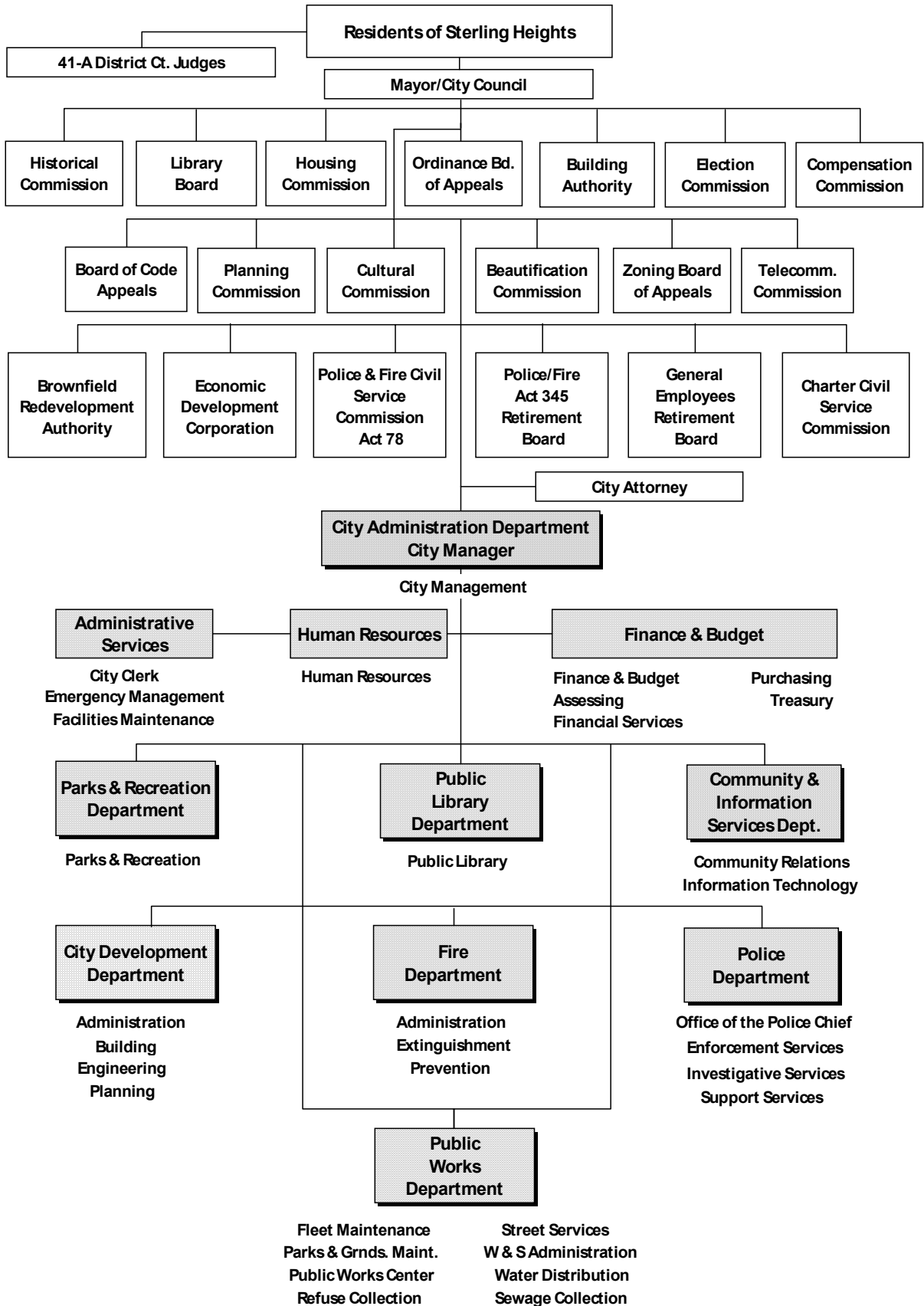
Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

City Organization Chart



City of Sterling Heights, Michigan

List of Principal Officials

Title	Name
City Manager	Mark D. Vanderpool
City Clerk/Assistant City Manager	Walter C. Blessed
City Development Director/Asst. City Manager	Daniel F. Bishop
Broadcast Services Manager	Michael Crimmins
Building Official	Michael G. Bartholomew
City Assessor	Matthew J. Schmidt
City Attorney	Jeffery A. Bahorski
City Engineer	Salvatore Conigliaro
City Planner	Donald A. Mende
City Treasurer	James P. Buhlinger
Communications Manager	Steve Guitar
Community Relations Director	Pat M. Lehman
Controller	Leslie D. Reinhart
Emergency Management Coordinator	J. Robert Johnson
Engineering Services Manager	Vacant
Environmental Services Manager	Daniel J. Sears
Facilities Maintenance Manager	Gary Schamehorn
Finance and Budget Director	Brian S. Baker
Financial Services Manager	Rick J. Sanborn
Fire Chief	John H. Childs
Human Resources Director	Dawn L. Demick
Information Technology Manager	Lois J. Gates
Network Administrator	Steve Deon
Parks and Recreation Director	Susan C. Kebbe
Police Chief	W. Barnett Jones
Public Library Director	Carol L. Lingeman
Public Services Manager	Denice A. Gerstenberg
Public Works Director	Guy A. Kebbe
Purchasing Manager	Janice L. Sierzenga
Risk Manager	Mark Carufel

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds

General *	Special Revenue
	Major Roads *
	Budget Stabilization
	Local Roads
	Land and Water Conservation
	Community Development Block Grant (CDBG)
Debt Service	Capital Projects
General Drain	General Improvements *
RS&T Debt Service	Road Bond Construction *
Settlement Bond	
Road Bond Debt Retirement	
Building Authority	

Proprietary Funds

Enterprise	Internal Service
Water and Sewer *	Self-insurance

Fiduciary Funds

Trust	Agency
General Employees' Retirement System	Tax Collections
Police and Fire Retirement System	General Agency
Retiree Medical Benefits	
	Component Units
	Economic Development Corporation
	Brownfield Redevelopment Authority

* Major funds under GASB 34

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Sterling Heights, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information, and pension system information on pages 3 through 11 and 66 through 68 are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling Heights, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory, statistical, and continuing disclosure sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005 on our consideration of the City of Sterling Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 23, 2005

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of narratives and financial statements. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages ix-xx and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information as well as continuing disclosure information related to bonded debt issued by the City of Sterling Heights in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of the City of Sterling Heights' finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Sterling Heights is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As a result, revenues and expenses are reported in this statement for some items that only result in cash flows in future fiscal periods (e.g., uncollected receivables and unused vacation leave).

Both of the government-wide statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover costs from user fees and charges for services (business-type activities). The governmental activities include general government, 41A District Court, public safety, public works, and recreation and culture. The business-type activities include the water and sewer operation of the City. The government-wide financial statements include not only the City of Sterling Heights (known as the primary government), but also the legally separate Economic Development Corporation and Brownfield Redevelopment Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the City. Although the Sterling Heights Building Authority is also legally separate, it functions as a department of the City and therefore has been included as an integral part of the primary government.

Fund Financial Statements (which report the City's operation in more detail than the government-wide financial statements) follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities and to demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. This comparison may allow the readers to better understand the long-term impact of the City's short-term financing decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and government activities.

The City of Sterling Heights maintains 13 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Roads Fund, General Improvement Fund, and Road Bond Debt Fund, all of which are considered to be major funds. Data for the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Sterling Heights adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all the governmental funds to demonstrate budgetary compliance.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City of Sterling Heights uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among various functions. The City of Sterling Heights uses an Internal Service Fund to account for its self-insurance program. Because this program predominantly benefits governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Required Supplemental Information concerning the City's progress in funding its obligations to provide pensions and other postemployment benefits to its employees is also presented in this section of the report. Also included are the budgetary comparison statements for the General Fund and major Special Revenue Fund as well as budget footnotes. This required supplemental information is in addition to the basic financial statements and accompanying notes.

Other Financial and Supplemental Information, such as the combining statements and certain budget comparison statements referred to earlier, as well as continuing disclosure information required by bond covenants, are presented immediately following the required supplemental information.

The City of Sterling Heights as a Whole

The City's combined net assets decreased 0.8 percent from a year ago, decreasing from \$338.2 million to \$335.6 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$2.6 million in net assets, or 1.5 percent, during fiscal 2005. This decrease was totally attributable to the settlement of a lawsuit by the City, which resulted in payment of \$6 million from cash reserves to complete the required installments on the 2004 lawsuit settlement entered into by the City. The business-type activities experienced no change in net assets. This was primarily due to contributions of water and sewer lines by developers and continued growth in customer base. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2005 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 40.1	\$ 52.2	\$ 28.6	\$ 30.3	\$ 68.7	\$ 82.5
Noncurrent assets:						
Restricted and other assets	2.0	2.3	6.5	6.1	8.5	8.4
Capital assets	<u>202.9</u>	<u>199.6</u>	<u>135.4</u>	<u>135.5</u>	<u>338.3</u>	<u>335.1</u>
Total assets	<u>245.0</u>	<u>254.1</u>	<u>170.5</u>	<u>171.9</u>	<u>415.5</u>	<u>426.0</u>
Liabilities						
Current liabilities	9.1	21.7	2.3	3.7	11.4	25.4
Noncurrent liabilities	<u>68.3</u>	<u>62.2</u>	<u>0.2</u>	<u>0.2</u>	<u>68.5</u>	<u>62.4</u>
Total liabilities	<u>77.4</u>	<u>83.9</u>	<u>2.5</u>	<u>3.9</u>	<u>79.9</u>	<u>87.8</u>
Net Assets						
Invested in capital assets - Net of related debt	165.8	164.1	135.4	135.5	301.2	299.6
Restricted	5.5	8.8	9.0	8.5	14.5	17.3
Unrestricted	<u>(3.7)</u>	<u>(2.7)</u>	<u>23.6</u>	<u>24.0</u>	<u>19.9</u>	<u>21.3</u>
Total net assets	<u>\$ 167.6</u>	<u>\$ 170.2</u>	<u>\$ 168.0</u>	<u>\$ 168.0</u>	<u>\$ 335.6</u>	<u>\$ 338.2</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets for the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, was \$(3.7) million at June 30, 2005. This represents a decrease of \$1.0 million, or approximately 37 percent. The major factors contributing to this decrease were the acquisition of property and combating the Emerald Ash Borer infestation in the Major Roads Fund (\$1.4 million) and the completion of certain road projects in the Local Roads Fund (\$0.6 million). These decreases were offset by increases in the General Fund (\$0.3 million) due to cost savings on various service contracts and strong cost control programs and the Road Bond Construction Fund due to reimbursement of prior year expenses from bond proceeds.

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2005 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 11.2	\$ 8.3	\$ 22.6	\$ 20.4	\$ 33.8	\$ 28.7
Operating grants and contributions	9.5	10.3	-	-	9.5	10.3
Capital grants and contributions	1.3	3.1	4.9	8.4	6.2	11.5
General revenues:						
Property taxes	50.4	48.5	-	-	50.4	48.5
State-shared revenues	11.1	11.3	-	-	11.1	11.3
Interest	1.2	0.7	0.6	0.5	1.8	1.2
Gain on sale of capital assets	0.1	-	-	-	0.1	-
Cable fees and other	1.3	1.4	-	-	1.3	1.4
Total revenue	86.1	83.6	28.1	29.3	114.2	112.9
Program Expenses						
General government	9.9	9.5	-	-	9.9	9.5
41A District Court	2.8	2.7	-	-	2.8	2.7
Public safety	42.2	39.8	-	-	42.2	39.8
Public works	25.5	22.8	-	-	25.5	22.8
Recreation and culture	5.7	6.1	-	-	5.7	6.1
Interest on long-term debt	2.6	2.0	-	-	2.6	2.0
Water and sewer	-	-	28.1	25.8	28.1	25.8
Total program expenses	88.7	82.9	28.1	25.8	116.8	108.7
Increase (Decrease) in Net Assets -						
Before extraordinary item	(2.6)	0.7	0.0	3.5	(2.6)	4.2
Extraordinary Item	-	(31.0)	-	-	-	(31.0)
Net Assets - Beginning of year	170.2	200.5	168.0	164.5	338.2	365.0
Net Assets - End of year	<u>\$ 167.6</u>	<u>\$ 170.2</u>	<u>\$ 168.0</u>	<u>\$ 168.0</u>	<u>\$ 335.6</u>	<u>\$ 338.2</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues increased by approximately \$2.5 million due to an increase in rates and construction activity related to charges for services (\$2.9 million) and an increase in property taxes due to a higher millage levied for the Police and Fire Retirement System (\$0.7 million) and general increases in taxable value related to expansion of personal property values within the industrial base of the City (\$1.2 million). These increases were offset by decreases in both operating (\$0.8 million) and capital (\$1.8 million) grants.

Expenses increased by approximately \$5.8 million, or 6.9 percent, over the last fiscal year. This limited increase resulted from the annual 3 percent wage increases contained in the City's labor agreement, approximately a 23.1 percent increase in employee health insurance costs, a 30 percent increase in interest payments on long-term debt as well as the continued growth of Sterling Heights and related demand for various services by the community.

During the year, the City continued meeting the actuarial required contributions for both defined benefit pension systems and provided funding for retiree medical benefits. This is important for the City since future taxpayers should not be required to fund benefit payments that were earned in the current period.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water and sewage treatment, which is purchased from the City of Detroit Water and Sewerage System, to nearly all residents. Rate increases for fiscal years 2005 and 2004 were held to less than the increases received from the City of Detroit. The City provides sewage treatment to approximately 99 percent of its residents through the Macomb County Sewage Treatment Plant. Rate increases for sewage treatment were also below the increase in the rates charged by Macomb County. During fiscal 2005, the water and sewer systems saw approximately a 0.5 percent decrease in the volume of water sold and sewage treated. This small decrease is consistent with the slight decrease (25) in the total number of users and the mild weather conditions over the fiscal year. As in prior years, a major source of growth in the system was the water and sewer lines contributed by developers. During fiscal year 2005, developers contributed \$3.5 million of water and sewer lines to the City. This contribution offset the \$3.5 million operating loss realized and resulted in no change in net assets during fiscal year 2005.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

Our analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local roads revenue and voted debt retirement property tax millages. The City's major funds for 2005 include the General Fund, the Major Roads Fund, the General Improvements Fund, and the Road Bond Construction Fund.

The General Fund pays for most of the City's governmental services. The most significant of these are police and fire services, which incurred expenditures of approximately \$42.2 million in 2005. The general operating millage levied by the City supports these two services. Net assets in the General Fund decreased by \$5.7 million primarily due to budgeted expenditure of reserves to cover the final payment on the lawsuit settlement reached in fiscal year 2004.

Net assets in the Major Roads Fund decreased by \$1.5 million as the result of planned expenditures in excess of transfers to the Local Roads Fund for the removal of infested trees caused by the Emerald Ash Borer and property acquisition.

The General Improvements Fund and Road Bond Construction Fund are the two funds used by the City to account for most capital outlay expenditures. Transfers from other funds or debt issuance proceeds support the activities within these funds. The General Improvements Fund had a decrease in net assets (\$0.6 million) due to infrastructure capital projects that were funded from existing reserves in compliance with the adopted budget. The Road Bond Construction Fund had an increase in net assets (\$0.6 million) during fiscal year 2005 due to reimbursement of prior year cost through the issuance of bonds.

General Fund Budgetary Highlights

Over the course of the year, City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. At year end, actual General Fund revenues came \$50,940 above budget estimated due primarily to higher fines and forfeitures and cable franchise revenues. Expenditures came in \$589,318 under budget due to department operational efficiencies. Mid-year, the City amended the budget to re-appropriate funding for prior year encumbrances and grant expenditures and for higher estimated state-shared revenues. The City has very conservatively budgeted for revenue sharing and has prepared for a much larger reduction than what actually occurred. At year end, the budget was amended to reflect the final \$6.0 million Freedom Hill payment settlement offset slightly by an expenditure reduction due to a delay in tax tribunal refunds. Higher revenues were realized from additional equipment and labor cross-charge revenues resulting from the 15 Mile sinkhole and from increased snow plowing due to weather conditions.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of fiscal year 2005, the City had \$337.5 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. The value of the infrastructure assets, net of depreciation, contained in this report is \$115.0 million and \$111.0 million for fiscal 2005 and 2004, respectively (see Note 4 of the notes to the basic financial statements for additional information).

The City's general obligation bonds maintained ratings of "Aa2" from Moody's, "AA" from Standard & Poor's and "AA+" from Fitch. These ratings were maintained throughout the year on the refundings and Michigan Transportation Fund bonds issued by the City. During the year, the City issued \$3.285 million par amount of Michigan Transportation Fund Refunding bonds. The proceeds from the bond sale were used to refund the 2000 Michigan Transportation Fund Bonds. The City also issued \$2.82 million of General Obligation Limited Tax Refunding bonds. The proceeds from this issue were used to refund the 2000 City Center Commons Building Authority bonds. In addition, the Macomb County Public Works issued \$2.315 million par amount of Limited Tax General Obligation bonds to refund the 1993 Seventeen Mile Road Drain and Branches Drain bonds. Debt service reductions from these refundings totaled approximately \$283,470 over the life of the bonds. The City also issued new debt in the form of a \$5.3 million Michigan Transportation Fund bond during fiscal year 2005. Debt reported in these financial statements is reported as a liability on the statement of net assets (see Note 7 of the notes to the basic financial statements for additional information).

The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita are as follows:

	2005	2004
Net direct bonded debt	\$40,795,000	\$43,681,539
Ratio of debt to total taxable value	.7079%	.7864%
Debt per capita	\$318.17	\$343.16

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City's millage rate has decreased in eight of the past ten years. We have reduced our tax rate by 20.6 percent since 1988, saving the average resident \$2,255 over this 18-year period. Strong expenditure controls and past growth in the City's tax base have helped to accomplish this planned millage rate reduction. Property taxes make up 65 percent of our General Fund budget. Because of Proposal A, which limits the growth on existing property to the rate of inflation, and due to a lessening of new growth and development in the City, future tax reductions will become more difficult. The inflation rate for the current year was only 2.3 percent. Annual new growth and development in the City has fallen from a 4 percent level during the late 1990s to only 2.0 percent this year. State-shared revenue payments have been cut for each of the past four years. The City has accumulatively lost nearly 20 percent of its state-shared revenues. The City will most likely see additional reductions due to the State's continued structural deficit problems. These factors, coupled with recent decreases in development revenues, have lessened the City's ability to further reduce property taxes. Though we have added several new cost recovery revenues, our health and pension costs have outstripped these new revenue sources. Other major issues include the cost of dealing with the emerald ash borer problem that has "eaten" away our dwindling funds needed for road maintenance and construction. We also need to fund the replacement of our public safety radio system in the next fiscal year.

Despite these concerns, the City continues to operate with relatively low personnel costs and an efficient labor force. We have received two bond-rating upgrades in the past three years and have recently maintained our outstanding ratings despite the Hillside Productions, Inc. settlement. While our pension systems are fully funded, we have experienced dramatic increases in pension fund contribution requirements within the Police and Fire Retirement System. We have, however, conducted an actuarial experience study that has reduced the City's contribution beginning in 2005/2006. We expect further continued medical cost increases of 15 percent per year. In addition, despite increasing retiree medical funding over the past two years by \$2 million, or 76 percent, we remain severely under-funded and are working to correct the under-funding. We are fully investigating potential new revenue opportunities. We will continue to monitor and adjust our expenditures to the revenue base to ensure that the City maintains adequate fund balance reserves.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City purchases its water and sewer services from the City of Detroit. Historically, we have not passed the full Detroit water and sewer rate increase to our customers. It is becoming more and more difficult to continue not to do so, especially when Detroit forecasts that increases will average 10 percent annually for the next three to five years. In addition, we are now being charged by Detroit for “true up” costs due to new computerized meter reading data that now tracks maximum day and peak hour usage. As a result, over the past several years we have changed our water and sewer rate structure from a declining tier to an inclining tier. This has allowed us to recoup our costs from some of our system's larger users who are most contributing to our higher peak costs. The City prides itself on having the lowest combined residential water and sewer rate of any city in the state with 25,000 or more residents. We are striving to ensure that Sterling Heights continues to have the lowest rates in the state.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the resources it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Sterling Heights, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 17,610,116	\$ 9,672,061	\$ 27,282,177	\$ 30,451
Investments - At fair value (Note 3)	14,468,285	19,960,335	34,428,620	-
Receivables:				
Customers	140,894	3,810	144,704	-
Special assessments - Current	26,682	7,676	34,358	-
Accrued interest	130,661	239,869	370,530	-
Other	465,765		465,765	-
Internal balances	1,513,486	(1,513,486)	-	-
Due from other governmental units	4,899,411	-	4,899,411	1,012
Prepaid costs and other assets	330,019	-	330,019	-
Inventories	496,009	239,534	735,543	-
Noncurrent assets:				
Special assessments	32,486	5,125	37,611	-
Restricted assets (Note 8)	1,985,813	6,489,341	8,475,154	-
Capital assets:				
Nondepreciable (Note 4)	48,764,705	1,834,502	50,599,207	-
Depreciable - Net (Note 4)	154,119,309	133,581,562	287,700,871	-
Total assets	<u>244,983,641</u>	<u>170,520,329</u>	<u>415,503,970</u>	<u>31,463</u>
Liabilities				
Accounts payable	3,128,035	1,960,703	5,088,738	2,817
Accrued and other liabilities	3,875,027	156,665	4,031,692	-
Provision for uninsured losses and liabilities (Note 9)	1,465,586	-	1,465,586	-
Due to other governmental units	121,219	-	121,219	-
Unearned revenue (Note 6)	561,102	114,527	675,629	-
Noncurrent liabilities (Note 7):				
Due within one year	5,643,367	-	5,643,367	-
Due in more than one year	62,615,581	235,661	62,851,242	-
Total liabilities	<u>77,409,917</u>	<u>2,467,556</u>	<u>79,877,473</u>	<u>2,817</u>
Net Assets				
Invested in capital assets - Net of related debt	165,784,014	135,416,064	301,200,078	-
Restricted:				
Roads	3,314,488	-	3,314,488	-
Debt service	236,999	-	236,999	-
County drains (Note 8)	1,985,813	-	1,985,813	-
Ordinance requirements (Note 8)	-	6,489,341	6,489,341	-
Council resolution for capital improvements	-	2,540,000	2,540,000	-
Unrestricted	(3,747,590)	23,607,368	19,859,778	28,646
Total net assets	<u>\$ 167,573,724</u>	<u>\$ 168,052,773</u>	<u>\$ 335,626,497</u>	<u>\$ 28,646</u>

City of Sterling Heights, Michigan

		Program Revenues		
		Charges for	Operating Grants and	Capital Grants and
	Expenses	Services	Contributions	Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 9,873,718	\$ 844,263	\$ 995,414	\$ -
41A District Court	2,852,812	2,320,411	168,606	-
Public safety	42,253,545	1,249,154	403,603	1,026,207
Public works	25,464,111	6,241,366	7,445,122	3,855
Recreation and culture	5,716,243	513,241	534,456	306,868
Interest on long-term debt	2,585,777	-	-	-
Total governmental activities	88,746,206	11,168,435	9,547,201	1,336,930
Business-type activities - Water and Sewer	28,142,434	22,619,205	-	4,911,208
Total primary government	\$ 116,888,640	\$ 33,787,640	\$ 9,547,201	\$ 6,248,138
Component units:				
Economic Development Corporation	\$ 27	\$ -	\$ -	\$ -
Brownfield Redevelopment Authority	3,742	-	3,862	-
Total component units	\$ 3,769	\$ -	\$ 3,862	\$ -
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Gain on sale of capital assets				
Franchise fees and other				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (8,034,041)	\$ -	\$ (8,034,041)	\$ -
(363,795)	-	(363,795)	-
(39,574,581)	-	(39,574,581)	-
(11,773,768)	-	(11,773,768)	-
(4,361,678)	-	(4,361,678)	-
(2,585,777)	-	(2,585,777)	-
(66,693,640)	-	(66,693,640)	-
-	(612,021)	(612,021)	-
(66,693,640)	(612,021)	(67,305,661)	-
-	-	-	(27)
-	-	-	120
-	-	-	93
50,357,630	-	50,357,630	-
11,127,156	-	11,127,156	-
1,155,124	615,574	1,770,698	530
105,454	-	105,454	-
1,319,937	-	1,319,937	-
64,065,301	615,574	64,680,875	530
(2,628,339)	3,553	(2,624,786)	623
170,202,063	168,049,220	338,251,283	28,023
\$ 167,573,724	\$ 168,052,773	\$ 335,626,497	\$ 28,646

City of Sterling Heights, Michigan

	General Fund	Major Roads Fund	General Improvements
Assets			
Cash and cash equivalents (Note 3)	\$ 4,984,341	\$ 2,768,664	\$ 3,110,061
Investments - At fair value (Note 3)	9,971,290	-	-
Receivables:			
Customers	-	-	140,894
Special assessments:			
Current	2,141	-	9,440
Deferred	2,141	-	30,345
Accrued interest	88,476	-	7,973
Other	471,883	-	-
Prepaid costs and other assets	88,534	-	-
Due from other funds (Note 5)	1,928,914	-	-
Due from other governmental units	1,009,263	1,079,333	84,612
Inventories	496,009	-	-
Restricted assets (Note 8)	-	-	1,985,813
Total assets	<u>\$ 19,042,992</u>	<u>\$ 3,847,997</u>	<u>\$ 5,369,138</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 988,352	\$ 1,118,972	\$ 96,103
Accrued and other liabilities	2,626,976	60,111	23,090
Due to other funds (Note 5)	728,636	126,481	31,760
Due to other governmental units	121,219	-	-
Deferred revenue (Note 6)	576,771	-	2,016,021
Total liabilities	5,041,954	1,305,564	2,166,974
Fund Balances			
Reserved for:			
Encumbrances	70,857	139,494	503,271
Inventory	496,009	-	-
Prepaid costs	88,534	-	-
Unreserved - Reported in (Note 13):			
General Fund	13,345,638	-	-
Special Revenue Funds	-	2,402,939	-
Capital Projects Funds	-	-	2,698,893
Debt Service Funds	-	-	-
Total fund balances	<u>14,001,038</u>	<u>2,542,433</u>	<u>3,202,164</u>
Total liabilities and fund balances	<u>\$ 19,042,992</u>	<u>\$ 3,847,997</u>	<u>\$ 5,369,138</u>

**Governmental Funds
Balance Sheet
June 30, 2005**

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 734,989	\$ 3,181,701	\$ 14,779,756
-	-	9,971,290
-	-	140,894
-	15,101	26,682
-	-	32,486
-	906	97,355
-	-	471,883
-	-	88,534
23,264	-	1,952,178
-	648,795	2,822,003
-	-	496,009
-	-	1,985,813
\$ 758,253	\$ 3,846,503	\$ 32,864,883

\$ 1,278	\$ 375,727	\$ 2,580,432
8,980	90,274	2,809,431
-	257,187	1,144,064
-	-	121,219
-	27,500	2,620,292
10,258	750,688	9,275,438
-	92,800	806,422
-	-	496,009
-	-	88,534
-	-	13,345,638
-	2,766,016	5,168,955
747,995	-	3,446,888
-	236,999	236,999
747,995	3,095,815	23,589,445
\$ 758,253	\$ 3,846,503	\$ 32,864,883

City of Sterling Heights, Michigan

Governmental Funds **Reconciliation of Fund Balances to the Statement of Net Assets** **Year Ended June 30, 2005**

Total Fund Balances for Governmental Funds **\$ 23,589,445**

Amounts reported for governmental activities in the statement of net assets are different because:

Certain receivables are expected to be collected over several years in the General Fund, Special Revenue Funds, and Debt Service Funds	67,259
Receivables related to State-shared revenues are reported in the statement of net assets at the time they are earned, without regard to timeliness of remittance by the State	2,077,408
Restricted assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures	1,985,813
Capital assets used in governmental activities are not financial resources and are not reported in the funds	202,884,014
Long-term liabilities not due and payable in the current period are not reported in the funds	(66,809,056)
Internal Service Fund is included as part of governmental activities	<u>3,778,841</u>

Net Assets of Governmental Activities **\$ 167,573,724**

City of Sterling Heights, Michigan

	General Fund	Major Roads Fund	General Improvements
Revenues			
Property taxes	\$ 47,828,337	\$ -	\$ -
Fees and permits	2,012,360	-	-
Federal sources	346,606	19,500	749,966
State and local sources	12,099,759	5,375,376	81,662
Fines and forfeitures	2,801,034	-	194,579
Charges for services	6,695,039	-	-
Interest income	774,353	51,452	65,026
Special assessments	2,141	-	54,886
Rental income	1,566,845	-	-
Cable revenue	1,319,937	-	-
Other	556,609	218,338	902,236
Total revenues	76,003,020	5,664,666	2,048,355
Expenditures			
Current:			
General government	10,042,438	-	-
41A District Court	2,472,160	-	-
Public safety	38,346,169	-	-
Public works	15,205,624	1,923,285	-
Recreation and culture	4,669,116	-	-
General expenditures	2,639,261	-	-
Capital outlay	-	2,629,006	3,454,346
Debt service	-	-	-
Total expenditures	73,374,768	4,552,291	3,454,346
Excess of Revenues Over (Under) Expenditures	2,628,252	1,112,375	(1,405,991)
Other Financing Sources (Uses)			
Proceeds from sale of assets	-	-	-
Bond premium	-	-	-
Long-term financing (Note 7)	-	-	-
Net payments to refunded bond escrow agent and bond issuance costs	-	-	-
Transfers in	81,360	500,000	943,980
Transfers out	(2,360,094)	(3,100,000)	(138,000)
Total other financing sources (uses)	(2,278,734)	(2,600,000)	805,980
Net Change in Fund Balances before Extraordinary Items	349,518	(1,487,625)	(600,011)
Extraordinary Items - Lawsuit settlement payments (Note 9)	(6,000,000)	-	-
Net Change in Fund Balances	(5,650,482)	(1,487,625)	(600,011)
Fund Balances - Beginning of year	19,651,520	4,030,058	3,802,175
Fund Balances - End of year	<u>\$ 14,001,038</u>	<u>\$ 2,542,433</u>	<u>\$ 3,202,164</u>

Governmental Funds
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2005

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 2,529,293	\$ 50,357,630
-	-	2,012,360
-	953,249	2,069,321
-	2,050,246	19,607,043
-	-	2,995,613
-	-	6,695,039
731	86,102	977,664
-	16,749	73,776
-	-	1,566,845
-	-	1,319,937
46,810	256,029	1,980,022
47,541	5,891,668	89,655,250
-	-	10,042,438
-	-	2,472,160
-	-	38,346,169
-	4,290,039	21,418,948
-	-	4,669,116
-	11,793	2,651,054
3,892,609	2,500,444	12,476,405
-	7,391,123	7,391,123
3,892,609	14,193,399	99,467,413
(3,845,068)	(8,301,731)	(9,812,163)
-	476,081	476,081
-	91,759	91,759
5,300,000	8,420,000	13,720,000
-	(8,511,067)	(8,511,067)
118,000	6,711,344	8,354,684
(881,370)	(160,220)	(6,639,684)
4,536,630	7,027,897	7,491,773
691,562	(1,273,834)	(2,320,390)
-	-	(6,000,000)
691,562	(1,273,834)	(8,320,390)
56,433	4,369,649	31,909,835
\$ 747,995	\$ 3,095,815	\$ 23,589,445

City of Sterling Heights, Michigan

Governmental Funds **Reconciliation of the Statement of Revenues, Expenditures, and Changes** **in Fund Balances of Governmental Funds to the Statement of Activities** **Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds **\$ (8,320,390)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 3,291,497

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection (195,426)

Special assessment revenues are recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); they are not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned (58,699)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 5,056,539

Bond issuance is not reported as an other financing source on the statement of activities (13,720,000)

Premiums received on bond issuance are recognized in the year of issuance in the governmental funds, but are amortized over the life of the bonds on the statement of activities (89,862)

Payments to an escrow agent on refunding bonds are not reported as an other financing use on the statement of activities 7,924,887

Accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities. In the current year, more was earned than was paid out (759,373)

Governmental Accounting Standards Board Interpretation 6 requires that lawsuit claims to be recorded in the statement of activities when they are payable, not paid 6,000,000

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities (1,757,512)

Change in Net Assets of Governmental Activities **\$ (2,628,339)**

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Business- type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 9,672,061	\$ 2,830,360
Investments - At fair value (Note 3)	19,960,335	4,496,995
Receivables:		
Customers	3,810	-
Special assessments	7,676	-
Accrued interest	239,869	33,306
Prepaid costs and other assets	-	241,485
Due from other funds (Note 5)	-	705,372
Inventories	239,534	-
Total current assets	30,123,285	8,307,518
Noncurrent assets:		
Special assessments	5,125	-
Restricted assets (Note 8)	6,489,341	-
Capital assets - Net (Note 4)	135,416,064	-
Total noncurrent assets	141,910,530	-
Total assets	172,033,815	8,307,518
Liabilities		
Current liabilities:		
Accounts payable	1,960,703	547,603
Accrued and other liabilities	156,665	-
Due to other funds (Note 5)	1,513,486	-
Provision for uninsured losses and liabilities (Note 9)	-	1,465,586
Unearned revenue	114,527	-
Total current liabilities	3,745,381	2,013,189
Noncurrent liabilities:		
Provision for uninsured losses and liabilities (Note 9)	-	2,515,488
Long-term debt - Net of current portion (Note 7)	235,661	-
Total noncurrent liabilities	235,661	2,515,488
Total liabilities	3,981,042	4,528,677
Net Assets		
Investment in capital assets	135,416,064	-
Restricted for:		
Ordinance requirements	6,489,341	-
Council resolution for capital improvements	2,540,000	-
Unrestricted	23,607,368	3,778,841
Total net assets	\$ 168,052,773	\$ 3,778,841

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Business- type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Operating Revenues		
Water sales	\$ 9,099,350	\$ -
Sewage treatment	11,378,001	-
Service charges	1,192,206	-
City contributions		7,747,489
Other	949,648	177,613
Total operating revenues	22,619,205	7,925,102
Operating Expenses		
Wages and fringe benefits	2,947,265	-
Contractual services	145,511	-
Water purchases	8,932,150	-
Sewage disposal charges	9,337,161	-
Materials and supplies	287,075	-
Repairs and maintenance	494,938	-
Building and equipment rental	124,985	-
Insurance	227,390	-
Depreciation	4,374,463	-
Administration expenses	1,208,160	322,678
Reinsurance charges and claims	-	6,782,417
Other	63,336	1,039,979
Total operating expenses	28,142,434	8,145,074
Operating Loss	(5,523,229)	(219,972)
Nonoperating Revenues		
Interest income	615,574	177,460
Tap fees and frontage charges	1,414,432	-
Total nonoperating revenues	2,030,006	177,460
Loss - Before contributions and operating transfers	(3,493,223)	(42,512)
Contributions from Developers	3,496,776	
Operating Transfer Out	-	(1,715,000)
Change in Net Assets	3,553	(1,757,512)
Net Assets - Beginning of year	168,049,220	5,536,353
Net Assets - End of year	<u>\$ 168,052,773</u>	<u>\$ 3,778,841</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Business- type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 20,839,364	\$ 7,513,037
Payments to suppliers for goods and services	(19,926,169)	-
Payments to employees for services	(2,947,265)	-
Payments connected with interfund services	(1,435,550)	-
Receipts connected with interfund services	1,308,736	-
Claims paid	-	(7,432,710)
Other receipts	266,389	-
Net cash used in operating activities	(1,894,495)	80,327
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	1,414,432	-
Transfer to governmental funds	-	(1,715,000)
Purchase of capital assets	(746,948)	-
Net cash provided by (used in) capital and related financing activities	667,484	(1,715,000)
Cash Flows from Investing Activities		
Interest received on investments	615,574	177,460
Purchase of investment securities	(63,808,134)	(14,913,886)
Proceeds from sales and maturities of investment securities	66,526,058	16,413,441
Net cash provided by investing activities	3,333,498	1,677,015
Net Increase in Cash and Cash Equivalents	2,106,487	42,342
Cash and Cash Equivalents - Beginning of year	8,383,666	2,788,018
Cash and Cash Equivalents - End of year	\$ 10,490,153	\$ 2,830,360
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 9,672,061	\$ 2,830,360
Restricted cash and cash equivalents (Note 8)	818,092	-
Total	\$ 10,490,153	\$ 2,830,360

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2005

	Business- type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (5,523,229)	\$ (219,972)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	4,374,463	-
Changes in assets and liabilities:		
Receivables	88,509	(26,454)
Prepaid costs and other assets	-	467,579
Due from other funds	-	(454,389)
Deposits	-	68,778
Inventory	(2,694)	-
Restricted assets - Receivables	(911,979)	-
Accounts payable	(1,286,385)	445,578
Accrued and other liabilities	64,807	-
Provision for uninsured losses and liabilities	-	(200,793)
Deferred revenue	(6,723)	-
Due to other funds	1,308,736	-
Net cash used in operating activities	<u>\$ (1,894,495)</u>	<u>\$ 80,327</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2005, developers constructed water and sewer lines with an estimated value of \$3,496,776 and donated them to the City's Water and Sewer Enterprise Fund.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2005

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 14,532,513	\$ 2,695,678
Investments - At fair value (Note 3):		
U.S. government securities	55,851,419	-
Commercial paper	-	1,499,895
Short-term investment fund	-	1,102,629
Corporate bonds	45,655,289	-
Mutual funds	26,847,377	-
Common and preferred stocks	167,295,030	-
Pooled investments	4,845,711	-
Due from other governmental units	65,175	4,070
Cash and investments held as collateral for securities lending	37,938,794	-
Receivables - Accrued interest	1,062,520	20,990
Other assets	479	-
	<hr/>	<hr/>
Total assets	354,094,307	<u>\$ 5,323,262</u>
Liabilities		
Accounts payable	1,401,441	\$ 103,585
Accrued and other liabilities	5,225,088	1,597,677
Amounts due to broker under securities lending agreements	37,938,794	-
Due to other governmental units	381,095	193,309
Provision for uninsured losses and liabilities (Note 9)	924,646	-
Deferred revenue	337	-
Cash bonds and deposits	-	3,428,691
	<hr/>	<hr/>
Total liabilities	45,871,401	<u>\$ 5,323,262</u>
Net Assets - Held in trust for pensions and other retirement benefits	<u>\$ 308,222,906</u>	

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2005

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income:	
Interest and dividends	\$ 6,820,494
Net adjustment to fair value of investments	25,576,051
Less investment expenses	<u>(1,077,084)</u>
Net investment income	31,319,461
Securities lending income:	
Interest and fees	760,125
Less borrower rebates and bank fees	<u>(704,694)</u>
Net securities lending income	55,431
Contributions:	
Employer	7,999,051
Employee	1,940,320
Insurance recovery	<u>56,430</u>
Total additions	41,370,693
Deductions	
Benefit payments	16,968,356
Refunds of contributions	<u>786,711</u>
Total deductions	<u>17,755,067</u>
Change in Net Assets	23,615,626
Net Assets - Beginning of year	<u>284,607,280</u>
Net Assets - End of year	<u><u>\$ 308,222,906</u></u>

City of Sterling Heights, Michigan

Component Units Statement of Net Assets June 30, 2005

	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets			
Cash and cash equivalent	\$ 16,055	\$ 14,396	\$ 30,451
Due from other governmental units	-	1,012	1,012
Total assets	16,055	15,408	31,463
Liabilities - Accounts payable	-	2,817	2,817
Net Assets - Unrestricted	<u><u>\$ 16,055</u></u>	<u><u>\$ 12,591</u></u>	<u><u>\$ 28,646</u></u>

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2005

	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Operating Grants and Contributions	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Economic Development Corporation -					
Public Works	\$ 27	\$ -	\$ (27)	\$ -	\$ (27)
Brownfield Redevelopment Authority -					
Public Works	3,742	3,862	-	120	120
Total component units	<u>\$ 3,769</u>	<u>\$ 3,862</u>	(27)	120	93
General Revenues - Interest			279	251	530
Change in Net Assets			252	371	623
Net Assets - Beginning of year			15,803	12,220	28,023
Net Assets - End of year			<u>\$ 16,055</u>	<u>\$ 12,591</u>	<u>\$ 28,646</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Sterling Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Discretely Presented Component Units - The following nonmajor component units are reported within the component units column in the government-wide financial statements to emphasize that they are legally separate from the City. Financial statements for each of the individual component units are available at the City's office.

- a. The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services to and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of five individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the Corporation. The Corporation is presented as a governmental fund type.
- b. The Brownfield Redevelopment Authority (the "Authority") was created to encourage and provide assistance in environmentally distressed areas in the City. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the Authority. The Authority is presented as a governmental fund type.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not allocable to program revenues are reported instead as general revenues.

Separate financial statements are provided within the report for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and the trust fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Roads Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.
- The General Improvements Fund (a Capital Projects Fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects.
- The Road Bond Construction Fund (a Capital Projects Fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of construction activity for roads and storm drains.

The City reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activity of the water distribution system and sewage collection system.

Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the government on a cost reimbursement basis.
- The Pension Trust Funds and the Retiree Medical Benefit Fund account for the activities of the general employee and police and fire employees retirement systems, which accumulate resources for pension benefit payments to qualified general and police and fire employees and for medical benefits provided to employees during retirement, respectively.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when acquired. Investments are stated at fair value. Shared pooled investment income from the Road Bond, General Drain, and RS&T Debt Service Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31 and the related property taxes become a lien and are billed on July 1 of the following year. These taxes are due on September 1 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The City Charter requires amounts in the Enterprise Fund to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve, when applicable. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for construction, maintenance, or debt service.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	25 years
Other improvements	10-30 years
Equipment	5-20 years
Furnishings and fixtures	10-15 years
Infrastructure	20-40 years
Water and sewer mains	50 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since July 1, 2001 is as follows:

Shortfall at July 1, 2004		\$ (1,302,954)
Current year building permit revenue	\$ 2,187,531	
Related expenses:		
Direct costs	1,671,942	
Estimated indirect costs	<u>1,246,270</u>	
Total construction code expenses		<u>2,918,212</u>
Net shortfall for the year ended June 30, 2004		<u>(730,681)</u>
Cumulative shortfall at June 30, 2005		<u><u>\$ (2,033,635)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

The investment policy adopted by the City Council in accordance with Public Act 20 of 1948, as amended, authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities (date specific maturities only), non-negotiable certificates of deposits, commercial paper (rated A2/P2 or above), bankers' acceptances, repurchase agreements, overnight deposits, or mutual funds. For overnight deposits, the treasurer may invest overnight or short-term liquid assets to cover cash flow requirements in the following types of pools: investment pools organized under the Surplus Funds Investment Pool Act of 1982, PA 367, I MCL 129.111 to MCL 129.118 or investment pools organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to 124.512. For mutual funds, the treasurer may invest in no-load fixed income mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan, either taxable or tax-exempt. This authorization is limited to mutual funds whose intent is to maintain a net asset value of \$1.00 per share.

The Pension Trust Funds and the Retiree Medical Benefits Fund are also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5 percent of the trust fund's assets if total assets are less than \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$19,462,787 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City's name

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy is very specific as it relates to investment maturities, as indicated in the table below.

Instrument	Maturity Maximum
U.S. treasuries	10 years
U.S. agencies and instrumentalities (date specific maturities only)	10 years
CDs (non-negotiable)	20% to 1 year, 20% to 270 days
Commercial paper (rated A1 or equivalent)	270 days
Banker acceptances	184 days
Repurchase agreements	60 days (collateral 10 years for treasuries, 7 years for instrumentalities)

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

At year end, the average maturities of investments are as follows:

Investment	Fair Value	Average Maturity
Government-wide		
Commercial paper	\$ 10,473,170	32.86 days
U.S. government or agency bond or note	20,455,345	34.70 days
General Employees' Retirement System		
Corporate bonds	7,035,848	3.45 years
U.S. government or agency bond or note	17,464,653	4.43 years
Foreign bonds	2,095,688	1.58 years
Police and Fire Retirement System		
Corporate bonds	30,307,381	6.65 years
U.S. government or agency bond or note	36,980,538	8.48 years
Foreign bonds	7,694,376	1.91 years
Retiree Medical Benefits		
Corporate bonds	213,398	3.98 years
U.S. government or agency bond or note	2,157,884	8.88 years

Credit Risk - In compliance with State law, the City's investment policy limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Organization
Government-wide			
Pooled funds	\$ 28,845,941	AAA	S&P
Pooled funds	212,252	Not Rated	
Commercial paper	8,512,320	A1 +	S&P
Commercial paper	1,960,850	A2	S&P
General Employees' Retirement System			
Corporate bonds	2,270,100	AAA	S&P
Corporate bonds	504,974	AA to AA-	S&P
Corporate bonds	1,273,849	A to A-	S&P
Corporate bonds	1,238,236	BBB to BBB-	S&P
Corporate bonds	1,268,370	BB to BB-	S&P
Corporate bonds	480,319	Not Rated	
Foreign bonds	259,336	AAA	S&P
Foreign bonds	460,229	A to A-	S&P
Foreign bonds	1,282,068	BBB to BBB-	S&P
Foreign bonds	94,055	Not Rated	
Pooled funds - Securities lending	15,136,842	Not Rated	
Police and Fire Retirement System			
Corporate bonds	15,390,089	AAA	S&P
Corporate bonds	366,719	AA to AA-	S&P
Corporate bonds	5,522,005	A to A-	S&P
Corporate bonds	4,640,969	BBB to BBB-	S&P
Corporate bonds	3,048,619	BB to BB-	S&P
Corporate bonds	1,338,980	Not Rated	
Foreign bonds	2,105,283	AAA	S&P
Foreign bonds	2,281,877	A to A-	S&P
Foreign bonds	2,827,812	BBB to BBB-	S&P
Foreign bonds	476,404	Not Rated	
Pooled funds - Securities lending	22,801,952	Not Rated	
Retiree Medical Benefits			
Corporate bonds	28,958	AAA	Moody's
Corporate bonds	99,508	AA1 to AA3	Moody's
Corporate bonds	73,878	A1 to A3	Moody's
Corporate bonds	11,054	BAA1	Moody's

Concentration of Credit Risk

Through its investment policy, the City places a 5 percent limit on the amount the City may invest in any one issuer.

Note 3 - Deposits and Investments (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency denominated investments to 5 percent of total pension system investments.

Both pension systems include exposure to the international asset class in order to increase diversification and reduce risk. The investments held by the General Employees and Police & Fire Pension International managers are protected from foreign currency risk through the use of ADRs (American Depository Receipts).

Retirement Investments

Securities Lending Transactions - The General Employees' Retirement System and the Police and Fire Retirement System (collectively referred to as the "Systems") have entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the Systems have authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to a formal loan agreement. At June 30, 2005, the Systems have no credit risk exposure to the borrowers because the amounts the Systems owe the borrowers exceed the amount the borrowers owe the Systems.

During the year, security loans were made at the discretion of the Systems' custodial bank and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 102 percent to 105 percent of the market value of the loaned securities. The Systems did not impose any restrictions during the past year on the amount of loans that the lending agents could make on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon. In addition, there were no losses during the past year resulting from default of the borrowers. Contracts with the lending agents require them to indemnify the Systems if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Systems for income distributions by the securities' issuers while the securities are on loan.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

All securities loans can be terminated on demand by either the Systems or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders, in a pool. The average duration of such investment pools as of June 30, 2005 was 157 days. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral held and the fair values of the underlying securities for the Systems as of June 30, 2005 were \$37,938,794 and \$36,680,688, respectively.

Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 43,133,348	\$ 274,412	\$ -	\$ 43,407,760
Construction in progress	4,864,622	4,908,096	(4,709,054)	5,063,664
Works of art	292,640	641	-	293,281
Net capital assets - Nondepreciable	48,290,610	5,183,149	(4,709,054)	48,764,705
Capital assets being depreciated:				
Building and building improvements	31,425,089	84,817	-	31,509,906
Improvements other than buildings	4,282,660	56,669	-	4,339,329
Equipment	28,995,279	3,188,792	(1,889,414)	30,294,657
Furnishings and fixtures	1,346,925	11,024	(22,968)	1,334,981
Infrastructure	193,251,827	11,133,351	-	204,385,178
Subtotal	259,301,780	14,474,653	(1,912,382)	271,864,051
Accumulated depreciation:				
Building and building improvements	7,971,951	679,875	-	8,651,826
Improvements other than buildings	840,925	141,568	-	982,493
Equipment	15,995,762	2,505,007	(758,299)	17,742,470
Furnishings and fixtures	919,510	70,396	(17,026)	972,880
Infrastructure	82,246,612	7,148,161	300	89,395,073
Subtotal	107,974,760	10,545,007	(775,025)	117,744,742
Net capital assets being depreciated	151,327,020	3,929,646	(1,137,357)	154,119,309
Net governmental capital assets	\$ 199,617,630	\$ 9,112,795	\$ (5,846,411)	\$ 202,884,014

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	1,874,539	-	(104,908)	1,769,631
Net capital assets - Nondepreciable	1,939,410	-	(104,908)	1,834,502
Capital assets being depreciated:				
Building and building improvements	274,602	131,735	-	406,337
Improvements other than buildings	11,391	-	-	11,391
Equipment	1,964,869	297,353	-	2,262,222
Furnishings and fixtures	27,030	-	-	27,030
Water and sewer mains	204,894,289	3,975,489	-	208,869,778
Subtotal	207,172,181	4,404,577	-	211,576,758
Accumulated depreciation:				
Building and building improvements	166,535	2,711	-	169,246
Improvements other than buildings	11,391	-	-	11,391
Equipment	873,710	254,120	-	1,127,830
Furnishings and fixtures	12,144	1,802	-	13,946
Water and sewer mains	72,501,008	4,171,775	-	76,672,783
Subtotal	73,564,788	4,430,408	-	77,995,196
Net capital assets being depreciated	133,607,393	(25,831)	-	133,581,562
Net business-type capital assets	\$ 135,546,803	\$ (25,831)	\$ (104,908)	\$ 135,416,064

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 349,848
Public safety	1,409,798
Public works	7,729,514
Recreation and culture	963,215
41A District Court	92,632
Total governmental activities	\$ 10,545,007
Business-type activities - Water and Sewer	\$ 4,430,408

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances in the fund-level financial statements is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Major Roads Fund	\$ 126,481
	Nonmajor governmental funds	257,187
	General Improvements Fund	31,760
	Water and Sewer Fund	<u>1,513,486</u>
	Total General Fund	1,928,914
Road Bond Construction Fund	General Fund	23,264
Self-insurance Fund	General Fund	<u>705,372</u>
	Total	<u>\$ 2,657,550</u>

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund investment accounts.

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	Major Roads Fund	\$ 500,000
	General Improvements Fund	943,980
	Nonmajor governmental funds	<u>916,114</u>
	Total	2,360,094
Major Roads Fund	Nonmajor governmental funds	3,100,000
General Improvements Fund	Nonmajor governmental funds	20,000
	Road Bond Construction Fund	<u>118,000</u>
	Total	138,000
Road Bond Construction Fund	Nonmajor governmental funds	881,370

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Fund Transferred From	Fund Transferred To	Amount
Nonmajor governmental funds	General Fund	\$ 81,360
	Nonmajor governmental funds	<u>78,860</u>
	Total	160,220
Proprietary Funds -		
Governmental activity	Nonmajor governmental funds	<u>1,715,000</u>
	Total	<u>\$ 8,354,684</u>

The transfer from the General Fund to the Major Roads Fund represents the transfer of unrestricted resources for current and future road projects; the transfer from the General Fund to the General Improvements Fund represents unrestricted resources for current capital projects; and the transfers from the General Fund to the nonmajor governmental funds represent funding for current repair and replacement programs and debt service payments. Transfers from the Major Roads Fund to the nonmajor governmental funds represent funding of current debt service, emerald ash borer infestation eradication, and local road maintenance. Transfers from the General Improvements Fund to the nonmajor governmental funds and the Road Bond Construction Fund represent funding for debt service payments and drain improvement project, respectively. Transfers from the nonmajor governmental funds and the proprietary funds to the nonmajor governmental funds represent funding for debt service payments.

Note 6 - Deferred Revenue

Governmental funds report unearned revenue in connection with receivables and deposits for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	Unavailable	Unearned
Due from Macomb County (Note 8)	\$ 1,985,813	\$ -
Special assessments	32,486	-
Other deposits	<u>40,891</u>	<u>561,102</u>
Total	<u>\$ 2,059,190</u>	<u>\$ 561,102</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Bonds:					
1991 Michigan Transportation Fund Bonds:					
Amount of Issue - \$3,300,000					
Maturing through 2005					
Interest Rate Ranges 2.75% - 6.20%					
Principal Maturity \$350,000	\$ 350,000	\$ -	\$ -	\$ 350,000	\$ 350,000
1994 Unlimited Tax Road Bonds:					
Amount of Issue - \$1,575,000					
Maturing through 2004					
Interest Rate Ranges 5.15% - 5.40%					
Principal Maturity Range \$200,000	200,000	-	(200,000)	-	-
1996 Michigan Transportation Fund Bonds:					
Amount of Issue - \$2,650,000					
Maturing through 2010					
Interest Rate Ranges 4.75% - 5.00%					
Principal Maturity Range \$200,000	400,000	-	(200,000)	200,000	200,000
1997 Unlimited Tax Road Bonds:					
Amount of Issue - \$1,850,000					
Maturing through 2007					
Interest Rate Ranges 4.70% - 5.10%					
Principal Maturity Range \$175,000 - \$225,000	850,000	-	(200,000)	650,000	200,000
1998 Unlimited Tax Road Bonds:					
Amount of Issue - \$2,775,000					
Maturing through 2007					
Interest Rate Ranges 3.75% - 5.75%					
Principal Maturity Range \$250,000 - \$375,000	1,350,000	-	(300,000)	1,050,000	325,000
1999 Unlimited Tax Road Bonds:					
Amount of Issue - \$2,700,000					
Maturing through 2008					
Interest Rate Ranges 3.56% - 4.10%					
Principal Maturity Range \$250,000 - \$350,000	1,575,000	-	(250,000)	1,325,000	300,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
General Obligation Bonds (Continued):					
1999 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,250,000					
Maturing through 2013					
Interest Rate Ranges 4.10% - 4.65%					
Principal Maturity Range \$200,000 - \$600,000	\$ 4,150,000	\$ -	\$ (250,000)	\$ 3,900,000	\$ 300,000
2000 Building Authority Bonds (City Center Commons):					
Amount of Issue - \$3,700,000					
Maturing through 2019					
Interest Rate Ranges 5.00% - 7.00%					
Principal Maturity Range \$75,000 - \$300,000	3,350,000	-	(2,725,000)	625,000	150,000
2000 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,225,000					
Maturing through 2014					
Interest Rate 5.00%					
Principal Maturity Range \$100,000 - \$500,000	3,900,000	-	(3,300,000)	600,000	200,000
2002 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$4,840,000					
Maturing through 2009					
Interest Rate Ranges 2.70% - 4.00%					
Principal Maturity Range \$100,000 - \$890,000	4,060,000	-	(890,000)	3,170,000	670,000
2003 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,050,000					
Maturing through 2013					
Interest Rate Ranges 2.375% - 3.60%					
Principal Maturity Range \$120,000 - \$500,000	3,050,000	-	(120,000)	2,930,000	190,000
2003 Building Authority Refunding Bonds:					
Amount of Issue - \$2,025,000					
Maturing through 2010					
Interest Rate Ranges 2.00% - 2.75%					
Principal Maturity Range \$300,000 - \$395,000	2,025,000	-	(315,000)	1,710,000	300,000
2004 Judgment Bonds:					
Amount of Issue - \$24,395,000					
Maturing through 2019					
Interest Rate Ranges 2.00% - 5.375%					
Principal Maturity Range \$840,000 - \$3,030,000	24,395,000	-	(840,000)	23,555,000	730,000
2005 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,285,000					
Maturing through 2014					
Interest Rate Ranges 3.00% - 4.125%					
Principal Maturity Range \$35,000 - \$500,000	-	3,285,000	-	3,285,000	35,000
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 3.00% - 5.00%					
Principal Maturity Range \$25,000 - \$305,000	-	2,820,000	-	2,820,000	25,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
General Obligation Bonds (Continued):					
2005 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,300,000					
Maturing through 2019					
Interest Rate Ranges 3.00% - 4.25%					
Principal Maturity Range \$100,000 - \$625,000	\$ -	\$ 5,300,000	\$ -	\$ 5,300,000	\$ 100,000
County Drain Contract Obligations:					
Diener Drain Enclosure No. 2:					
Amount of Issue - \$1,838,767					
Maturing through 2005					
Interest Rate Ranges 4.00% - 6.40%					
Principal Maturity Range \$167,596 - \$191,539	191,539	-	(191,539)	-	-
Green Drain Enclosure:					
Amount of Issue - \$1,065,000					
Maturing through 2007					
Interest Rate Ranges 5.40% - 5.70%					
Principal Maturity Range \$75,000 - \$100,000	300,000	-	(100,000)	200,000	100,000
Seventeen Mile Road Drain and Branches:					
Amount of Issue - \$3,550,000					
Maturing through 2013					
Interest Rate Ranges 4.00% - 5.70%					
Principal Maturity Range \$150,000 - \$300,000	2,225,000	-	(2,225,000)	-	-
Busch Drain Drainage District:					
Amount of Issue - \$1,250,000					
Maturing through 2014					
Interest Rate Ranges 4.00% - 4.55%					
Principal Maturity Range \$50,000 - \$125,000	975,000	-	(75,000)	900,000	75,000
Hawken Drain Drainage District:					
Amount of Issue - \$795,000					
Maturing through 2015					
Interest Rate Ranges 4.45% - 5.25%					
Principal Maturity Range \$50,000 - \$75,000	600,000	-	(50,000)	550,000	50,000
Hayes Drain Drainage District:					
Amount of Issue - \$1,095,000					
Maturing through 2015					
Interest Rate Ranges 4.50% - 5.50%					
Principal Maturity Range \$25,000 - \$125,000	975,000	-	(50,000)	925,000	50,000
Plumbrook Bridge Replacement Drain Drainage District:					
Amount of Issue - \$2,800,000					
Maturing through 2015					
Interest Rate Ranges 4.00% - 5.00%					
Principal Maturity Range \$100,000 - \$275,000	2,350,000	-	(150,000)	2,200,000	150,000
17 Mile Extension Drain Drainage District:					
Amount of Issue - \$1,725,000					
Maturing through 2016					
Interest Rate Ranges 3.00% - 4.50%					
Principal Maturity Range \$75,000 - \$150,000	1,500,000	-	(75,000)	1,425,000	100,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
County Drain Contract Obligations (Continued):					
Sterling Relief Lateral 12B Drainage District:					
Amount of Issue - \$885,000					
Maturing through 2013					
Interest Rate Ranges 2.00% - 4.00%					
Principal Maturity Range \$75,000 - \$105,000	\$ 820,000	\$ -	\$ (75,000)	\$ 745,000	\$ 75,000
17 Mile Road Drain and Branches Refunding Bonds					
Amount of Issue - \$2,315,000					
Maturing through 2013					
Interest Rate Ranges 2.00% - 3.75%					
Principal Maturity Range \$200,000 - \$290,000	-	2,315,000	(200,000)	2,115,000	230,000
Special Assessment Bonds:					
1996 Special Assessment Bonds:					
Amount of Issue - \$590,000					
Maturing through 2004					
Interest Rate Ranges 4.85% - 5.00%					
Principal Maturity Range \$75,000 - \$100,000	100,000	-	(100,000)	-	-
1997 Special Assessment Bonds with Governmental Commitment:					
Amount of Issue - \$1,040,000					
Maturing through 2005					
Interest Rate Ranges 4.6% - 5.00%					
Principal Maturity \$125,000	250,000	-	(125,000)	125,000	125,000
Total bond obligations	59,941,539	13,720,000	(13,006,539)	60,655,000	5,030,000
Other long-term obligations:					
Provision for uninsured losses and other liabilities	4,181,867	6,003,799	(6,204,592)	3,981,074	1,465,586
Compensated absences	4,329,087	2,885,917	(2,126,544)	5,088,460	613,367
Total other long-term obligations	8,510,954	8,889,716	(8,331,136)	9,069,534	2,078,953
Total governmental activities	68,452,493	22,609,716	(21,337,675)	69,724,534	7,108,953
Business-type Activities - Water and Sewer					
Fund obligations - Compensated absences	199,596	62,396	(26,331)	235,661	-
Total	\$ 68,652,089	\$ 22,672,112	\$ (21,364,006)	\$ 69,960,195	\$ 7,108,953

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 5,030,000	\$ 2,479,377	\$ 7,509,377
2007	4,850,000	2,330,268	7,180,268
2008	5,010,000	2,156,668	7,166,668
2009	4,955,000	1,983,547	6,938,547
2010	4,585,000	1,817,820	6,402,820
2011-2015	21,350,000	6,319,927	27,669,927
2016-2020	14,875,000	1,742,556	16,617,556
Total	<u>\$ 60,655,000</u>	<u>\$ 18,830,163</u>	<u>\$ 79,485,163</u>

During the year, the City issued \$3,285,000 Michigan Transportation Fund Refunding bonds with an average coupon (interest) rate of 3.76 percent. The proceeds were used to advance refund \$3,100,000 of the outstanding 2000 Michigan Transportation Fund bonds with an average coupon (interest) rate of 5.09 percent. The City also issued \$2,820,000 of General Obligation Limited Tax Refunding bonds with an average coupon (interest) rate of 4.43 percent. The proceeds of this issue were used to advance refund \$2,625,000 of the outstanding 2000 City Center Commons Building Authority bonds with an average coupon (interest) rate of 5.71 percent. A third bond issue (the Seventeen Mile Drain and Branches Refunding bonds) totaling \$2,315,000 was issued by the Macomb County Public Works Department on behalf of the City. The average coupon (interest) rate of the general obligation limited tax refunding bonds issued by the County was 3.37 percent. The proceeds were used to advance refund \$2,225,000 of the 1993 Seventeen Mile Road Drain and Branches Drainage District bonds with an average coupon (interest) rate of 5.24 percent.

The net proceeds of \$3,220,535 from the Michigan Transportation Fund Refunding bonds, \$2,796,382 from the General Obligation Limited Tax Refunding bonds and \$2,300,377 from the Seventeen Mile Drain and Branches Refunding bonds (after payment of \$95,264, \$101,774, and \$74,448, respectively, in underwriter fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into separate irrevocable trusts with an escrow agent to provide future debt service payments on the 2000 Michigan Transportation Fund bonds, 2000 City Center Commons Building Authority bonds, and 1993 Seventeen Mile Road Drain and Branches Drainage District bonds, respectively.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

As a result, all three of the bond issues listed above are considered defeased and the liability for the bonds has been removed from the long-term obligations of the governmental activities. The advanced refunding reduced the total debt service over the next fourteen, nine, and nine years, respectively, by \$118,510, \$76,786, and \$88,178, respectively, which represents an economic gain of \$89,913, \$62,747, and \$79,958, respectively.

Additionally, the City issued \$5,300,000 in new Michigan Transportation Fund Bonds. The bonds mature from 2006 through 2020 and carry coupons ranging from 3.00 percent to 4.25 percent. The true interest cost of the issue was 4.04 percent. Bond proceeds totaling \$106,136 were used to pay underwriter fees and other issuance costs. The net proceeds of the bond issue were used to reimburse costs associated with two major road projects completed during fiscal year 2005.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At June 30, 2005, the City's portion of bonds outstanding that are considered defeased is \$6,950,000

Note 8 - Restricted Assets

Specific assets of the Water and Sewer Fund have been restricted by ordinance which requires the City to set aside a sum sufficient to provide for the subsequent quarter's expenses for operations, maintenance, and replacement. Specific assets of the General Improvements Fund are restricted as the result of an external government issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose the bonds were issued or the repayment of the bonds. Following is the detail of restricted assets at June 30, 2005:

Water and Sewer Fund:

Cash and cash equivalents	\$ 818,092
Accounts receivable - Customers	5,671,249
Total Water and Sewer Fund	6,489,341

General Improvements Fund - Due from Macomb County* (Note 6)

Total restricted assets	\$ 8,475,154
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* This amount is held by Macomb County in the Construction and Debt Retirement Funds maintained on behalf of the City by the Macomb County Department of Public Works for drain construction projects of the City.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Restricted Assets (Continued)

There are no current liabilities payable from restricted assets and net assets have been reserved for restricted assets.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation and short-term disability), as well as medical benefits provided to employees. The City is self-funded for all of these claims up to a retention amount, at which time the City's reinsurance coverage begins. Settled claims did not exceed the amount of reinsurance coverage for any of the last three years.

Property Liability

The City purchased reinsurance through Arthur J. Gallagher and Company, an international insurance brokerage firm.

It is estimated, based on past experience, that \$1,851,165 will be paid for all claims reported to date and \$549,658 will be paid for claims incurred but not reported. The estimated liability for reported and incurred but not reported claims has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2005	2004
Estimated liability - Beginning of year	\$ 2,832,977	\$ 1,686,060
Estimated claims incurred, including changes in estimates	291,103	1,388,253
Claim payments	<u>(723,257)</u>	<u>(241,336)</u>
Estimated liability - End of year	<u>\$ 2,400,823</u>	<u>\$ 2,832,977</u>

Medical Claims and Short-term Disability

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent health care coverage. Under the program, the City is liable for claims up to a retention amount of \$200,000 per active and retired employee (including dependents) for the contract year ended June 30, 2005. At January 1, 1990, the City became self-insured for short-term disability.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Risk Management (Continued)

It is estimated, based on past experience, that \$68,429 will be paid for all claims reported to date and \$2,205,097 will be paid for claims incurred but not reported. This amount and all other transactions with respect to active employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Retired employee medical claims are reflected in the Retiree Medical Benefits Fiduciary Fund. Changes in the estimated liability for the past two fiscal years are as follows:

	Self-insurance Internal Service Fund	
	2005	2004
Estimated liability - Beginning of year	\$ 1,107,668	\$ 1,644,782
Estimated claims incurred, including changes in estimates	5,464,188	3,649,851
Claim payments	(5,222,976)	(4,186,965)
Estimated liability - End of year	<u>\$ 1,348,880</u>	<u>\$ 1,107,668</u>
	Retiree Medical Benefits Fund	
	2005	2004
Estimated liability - Beginning of year	\$ 705,239	\$ -
Estimated claims incurred, including changes in estimates	3,917,991	995,536
Claim payments	(3,698,584)	(290,297)
Estimated liability - End of year	<u>\$ 924,646</u>	<u>\$ 705,239</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Risk Management (Continued)

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City is liable for the first \$150,000 of any occurrence. The City has purchased excess insurance to cover claims greater than \$150,000. At June 30, 2005, it was estimated, based on past experience, that \$231,371 will be paid in total for both claims reported to date and claims incurred but not reported. This estimated liability for claims reported to date has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2005	2004
Estimated liability - Beginning of year	\$ 241,222	\$ 124,811
Estimated claims incurred, including changes in estimates	248,508	532,465
Claim payments	(258,359)	(416,054)
Estimated liability - End of year	<u>\$ 231,371</u>	<u>\$ 241,222</u>

Extraordinary Item

By the terms of a settlement and release agreement dated March 22, 2004, the United States District Court case entitled *Hillside Productions, Inc, et al vs. Steve Duchane, et al* was resolved. The final payment of \$6,000,000 for the balance of the settlement amount was paid into an interest-bearing escrow account for the benefit of the plaintiffs on January 3, 2005, and was subsequently released pursuant to an order of the court.

It is the City's position that the settlement and related legal fees are covered under policies of liability insurance. The City has initiated a United States District Court case entitled *City of Sterling Heights, et al vs. United National Ins. Co, et al* seeking a determination of insurance coverage available and recovery under those policies. Any monies recovered through this case will be recognized upon receipt.

Note 10 - Defined Benefit Pension Plans

Plan Description - The City participates in two retirement plans, the General Employees' Retirement System and the Police and Fire Retirement System. The General Employees' Retirement System and the Police and Fire Retirement Boards are the administrators of single-employer defined benefit public employee retirement systems that cover substantially all general employees and police and fire employees, respectively. The plans do not issue separate financial statements.

General Employees' Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, membership consisted of 182 retirees, beneficiaries, alternative payees currently receiving benefits, 16 terminated employees entitled to benefits but not yet receiving them, and 293 current active employees.

Police and Fire Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, membership consisted of 220 retirees, beneficiaries, alternate payees currently receiving benefits, no terminated employees entitled to benefits but not yet receiving them, and 251 current active employees.

Funding Policy

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

General Employees' Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through the General Fund.

Police and Fire Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Defined Benefit Pension Plans (Continued)

Annual Pension Costs

General Employees' Retirement System - For the fiscal year ended June 30, 2005, the City had no required pension contributions (exclusive of administrative costs of approximately \$577,000). The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return and (b) projected salary increases of 4.5 percent to 8.5 percent per year. Both (a) and (b) include an inflation component of 4.5 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 16 years.

Police and Fire Retirement System - For the fiscal year ended June 30, 2005, the City's annual pension cost of \$4,204,831 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include: (a) a 7.5 percent investment rate of return and (b) projected salary increases of 4.2 percent to 8.0 percent per year. Both (a) and (b) include an inflation component of 4 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 20 years.

	Year Ended		
	2003	2004	2005
General Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 2,747,983	\$ 3,545,592	\$ 4,204,831
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Defined Benefit Pension Plans (Continued)

Statement of Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Assets		
Cash and cash equivalents	\$ 5,450,195	\$ 8,828,448
Investments - At fair value:		
U.S. government securities	17,335,153	38,516,266
Corporate bonds	8,761,199	34,522,808
Mutual funds	26,847,377	-
Common and preferred stocks	51,048,006	109,863,516
Pooled investments	-	4,845,711
Cash and investments held as collateral for securities lending	15,136,842	22,801,952
Receivables - Accrued interest	285,682	776,838
Other assets	-	479
Total assets	124,864,454	220,156,018
Liabilities		
Accounts payable	271,525	1,129,916
Accrued and other liabilities	1,693,373	3,524,839
Amounts due to broker under securities lending agreements	15,136,842	22,801,952
Deferred revenue	337	-
Total liabilities	17,102,077	27,456,707
Net Assets - Held in trust for pensions	<u>\$ 107,762,377</u>	<u>\$ 192,699,311</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Defined Benefit Pension Plans (Continued)

Statement of Changes in Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Additions		
Investment income (loss):		
Interest and dividends	\$ 1,073,941	\$ 5,524,342
Net adjustment to fair value of investments	9,572,641	15,347,059
Less investment expenses	-	(1,009,092)
Net investment income	10,646,582	19,862,309
Securities lending income:		
Interest and fees	220,335	539,790
Less borrower rebates and bank fees	(208,059)	(496,635)
Net securities lending income	12,276	43,155
Contributions:		
Employer	-	4,204,831
Employee	848,390	1,091,930
Total additions	11,507,248	25,202,225
Deductions		
Benefit payments	3,250,146	9,455,558
Refunds of contributions	117,872	668,839
Total deductions	3,368,018	10,124,397
Change in Net Assets	8,139,230	15,077,828
Net Assets - Beginning of year	99,623,147	177,621,483
Net Assets - End of year	<u>\$ 107,762,377</u>	<u>\$ 192,699,311</u>

Note 11 - Defined Contribution Pension Plan

The City provides pension benefits to new employees who are members of the MAPE Executive Union, non-union 41A District Court employees, UAW TOPS members, UAW supervisors, and MAPE clerical members through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council Resolution, the City contributes 7 percent of employees' base wages, while employees contribute 5 percent of gross wages to employees' individual accounts. The City's contributions to the employees' account including investment earnings are fully vested after five years of service. In accordance with these requirements, the City contributed \$241,741 during the current year and employees contributed \$222,606.

All new employees of the above-mentioned groups participate from the date of employment. Current members of the above unions can elect to withdraw from the defined benefit plan and enter the defined contribution plan. No assets were transferred into the defined contribution plan during the current year because no members elected to withdraw from the defined benefit plan.

Note 12 - Postemployment Benefits

In addition to providing pension benefits, the City provides certain health care benefits, in accordance with labor contracts, for retired general, police, and fire employees. Substantially all of the City's employees mentioned above may become eligible for those benefits if they reach normal retirement age while working for the City. Currently, 160 general and 205 police and fire retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant, except for the M.A.P.E. Executives Union and the U.A.W. Professional and Technical Employees Union, which, effective July 1, 2003, requires new members to pay 25 percent of the monthly retiree health care coverage premium upon retirement. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

The cost of retiree health care benefits is reflected in the Retiree Medical Benefits Fund, which was established during the 1989 fiscal year when the City began to prefund these benefits. During the current year, the contribution amounted to \$3,794,220, which was funded by the General and Water and Sewer Funds, and health care benefits paid totaled \$4,036,067.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 12 - Postemployment Benefits (Continued)

Statement of Net Assets

	Retiree Medical Benefits
Assets	
Cash and cash equivalents	\$ 253,870
Investments - At fair value:	
Corporate bonds	2,371,282
Common and preferred stocks	6,383,508
Due from other governmental units	<u>65,175</u>
Total assets	9,073,835
Liabilities	
Accrued and other liabilities	6,876
Due to other governmental units	381,095
Provision for uninsured losses and liabilities	<u>924,646</u>
Total liabilities	<u>1,312,617</u>
Net Assets - Held in trust for other retirement benefits	<u>\$ 7,761,218</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 12 - Postemployment Benefits (Continued)

Statement of Changes in Net Assets

	Retiree Medical Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 222,211
Net adjustment to fair value of investments	656,351
Less investment expenses	<u>(67,992)</u>
Net investment income (loss)	810,570
Contributions - Employer	3,794,220
Insurance recovery	<u>56,430</u>
Total additions	4,661,220
Deductions - Benefit payments	<u>4,262,652</u>
Net Change in Net Assets	398,568
Net Assets - Beginning of year	<u>7,362,650</u>
Net Assets - End of year	<u><u>\$ 7,761,218</u></u>

Effective for current retirees under the police and command officer, emergency dispatcher, and firefighter contracts, the City provides dental benefits. Currently, there are 72 police and fire retirees eligible. The cost of retiree benefits is recognized as an expenditure of the General Fund. The total expenditure for these benefits approximated \$63,000 for the current year.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2005

Note 13 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds with management's designation:

Designated for	Funds				
	General	Major Roads	General Improvements	Road Bond Construction	Nonmajor
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 236,999
Capital improvement	-	2,402,939	2,698,893	747,995	679,255
Public safety radio system	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total designated	<u>\$ 2,000,000</u>	<u>\$ 2,402,939</u>	<u>\$ 2,698,893</u>	<u>\$ 747,995</u>	<u>\$ 916,254</u>
Unreserved	<u>\$ 11,345,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,086,761</u>

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 19,651,520	\$ 19,651,520	\$ 19,651,520	\$ -
Resources (Inflows)				
Property taxes	38,370,310	38,526,030	38,420,002	(106,028)
Refuse taxes	5,219,670	5,219,670	5,203,504	(16,166)
Police and Fire pension taxes	4,204,830	4,204,830	4,204,831	1
State and local returns	11,340,890	12,362,420	12,382,775	20,355
Licenses and permits	2,046,570	2,000,070	2,012,360	12,290
Fines and forfeitures	2,315,600	2,784,950	2,864,624	79,674
Charges for services	6,089,620	6,686,220	6,695,039	8,819
Cable revenue	1,100,000	1,250,000	1,319,937	69,937
Other revenue	2,508,740	2,917,890	2,899,948	(17,942)
Transfer from other funds	81,360	81,360	81,360	-
Total resources (inflows)	73,277,590	76,033,440	76,084,380	50,940
Charges to Appropriations (Outflows)				
City administration	7,509,030	7,938,300	7,765,802	172,498
41A District Court	2,497,280	2,489,460	2,472,160	17,300
Parks and recreation department	2,250,310	2,212,450	2,195,032	17,418
Community and information services	2,328,510	2,299,340	2,276,636	22,704
Police department	24,493,220	24,871,930	24,700,513	171,417
Fire department	13,559,300	13,724,050	13,645,656	78,394
City development	4,574,600	4,485,760	4,475,695	10,065
Public works department	5,384,570	5,783,630	5,876,779	(93,149)
Refuse collection	5,219,670	5,017,830	4,853,150	164,680
Public library department	2,481,780	2,476,460	2,474,084	2,376
General expenditures	2,967,990	8,664,870	8,639,261	25,609
Transfers to other funds	2,357,630	2,360,100	2,360,094	6
Total charges to appropriations (outflows)	75,623,890	82,324,180	81,734,862	589,318
Fund Balance - End of year	\$ 17,305,220	\$ 13,360,780	\$ 14,001,038	\$ 640,258

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 4,030,058	\$ 4,030,058	\$ 4,030,058	\$ -
Resources (Inflows)				
State sources	5,325,000	5,560,000	5,375,376	(184,624)
Other	260,000	280,000	289,290	9,290
Transfers from other funds	500,000	500,000	500,000	-
Total resources (inflows)	6,085,000	6,340,000	6,164,666	(175,334)
Charges to Appropriations (Outflows)				
Public works:				
Administration	101,700	106,700	172,431	(65,731)
Routine maintenance	1,736,850	2,026,850	2,005,180	21,670
Improvements	903,500	1,918,720	2,374,680	(455,960)
Transfers to other funds	3,100,000	3,100,000	3,100,000	-
Total charges to appropriations (outflows)	5,842,050	7,152,270	7,652,291	(500,021)
Fund Balance - End of year	\$ 4,273,008	\$ 3,217,788	\$ 2,542,433	\$ (675,355)

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c) Underfunded/ (Overfunded)
General Employees' Retirement System						
12/31/99	\$ 83,265,200	\$ 59,029,315	\$ (24,235,885)	141.1	\$ 13,369,712	(181.3%)
12/31/00	92,171,384	62,698,360	(29,473,024)	147.0	14,134,860	(208.5%)
12/31/01	97,369,495	67,431,670	(29,937,825)	144.4	14,383,348	(208.1%)
12/31/02	97,272,398	73,294,274	(23,978,124)	132.7	14,304,432	(167.6%)
12/31/03	99,270,906	77,021,654	(22,249,252)	128.9	14,544,030	(153.0%)
12/31/04	102,510,129	82,169,717	(20,340,412)	124.8	15,251,784	(133.4%)
Police and Fire Retirement System						
12/31/99	\$ 174,770,699	\$ 153,505,121	\$ (21,265,578)	113.9	\$ 16,930,450	(125.6%)
12/31/00	185,771,342	124,915,986	(60,855,356)	148.7	16,796,531	(362.3%)
12/31/01	187,772,035	133,938,061	(53,833,974)	140.2	18,504,190	(290.9%)
12/31/02	184,609,657	141,187,613	(43,422,044)	130.8	18,595,100	(233.5%)
12/31/03	183,664,050	149,968,630	(33,695,420)	122.5	18,271,862	(184.4%)
12/31/04	187,265,961	155,818,664	(31,447,297)	120.2	19,906,323	(158.0%)

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2005

General Employees' Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/00	12/31/98	\$ -	100.0
06/30/01	12/31/99	-	100.0
06/30/02	12/31/00	-	100.0
06/30/03	12/31/01	-	100.0
06/30/04	12/31/02	-	100.0
06/30/05	12/31/03	-	100.0

Police and Fire Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/00	12/31/98	\$ 2,107,873	100.0
06/30/01	12/31/99	2,197,860	100.0
06/30/02	12/31/00	1,634,437	100.0
06/30/03	12/31/01	2,747,983	100.0
06/30/04	12/31/02	3,545,592	100.0
06/30/05	12/31/03	4,204,831	100.0

* The required contribution is expressed to the City as a percentage of payroll.

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2005

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2004, the latest actuarial valuation, follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	16 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 8.5%
*Includes inflation at	4.5%
Cost of living adjustments	None

Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	0.2% - 4.0%
*Includes inflation at	4.0%
Cost of living adjustments	None

An additional \$800 will be paid to pre-07/01/94 COA and fire retirees and \$500 for pre-07/01/93 MAP retirees each January 1 following the year of service retirement, or converted service retirement, terminating upon the member's death.

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2005

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget by budgetary center for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to April 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to May 10, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City Manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, Debt Service, and Capital Projects Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted. Budget appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and Major Special Revenue Funds is presented as required supplemental information. The budget presented as required supplemental information reflects greater detail than the amended budget adopted.

Encumbrance accounting is employed in all governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2005

Note - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Public works	\$ 5,783,630	\$ 5,876,779
Major Roads Fund:		
Administration	106,700	172,431
Improvements	<u>1,918,720</u>	<u>2,374,680</u>
Total Major Roads Fund	<u>\$ 2,025,420</u>	<u>\$ 2,547,111</u>

The unfavorable variance in the General Fund - Public Works Department was caused by unanticipated repairs to large equipment vehicles which included fire engines, street sweepers, and dump trucks. In addition, gas prices were higher than anticipated by year end.

The unfavorable variance in the Major Roads Fund - Administration Department was caused by unanticipated engineering fees for the preliminary portion of a future road project.

The unfavorable variance for Major Roads Fund - Improvements was the result of a property acquired for road improvements.

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds				
	Budget Stabilization	Local Roads	Land and Water Conservation	Community Development Block Grant	Total Nonmajor Special Revenue Funds
Assets					
Cash and cash equivalents	\$ 750,000	\$ 780,598	\$ 1,428,404	\$ 1,707	\$ 2,960,709
Receivables:					
Special assessments:					
Current	-	-	-	-	-
Deferred	-	-	-	-	-
Accrued interest	-	-	-	-	-
Prepaid costs and other assets	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governmental units	-	407,697	-	241,098	648,795
Total assets	<u>\$ 750,000</u>	<u>\$ 1,188,295</u>	<u>\$ 1,428,404</u>	<u>\$ 242,805</u>	<u>\$ 3,609,504</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 159,500	\$ 55,543	\$ 160,684	\$ 375,727
Accrued and other liabilities	-	84,434	5,840	-	90,274
Due to other funds	-	172,306	20,381	64,500	257,187
Deferred revenue	-	-	27,500	-	27,500
Total liabilities	-	416,240	109,264	225,184	750,688
Fund Balances					
Reserved for encumbrances	-	92,800	-	-	92,800
Unreserved:					
Designated for road improvements	-	679,255	-	-	679,255
Designated for debt service	-	-	-	-	-
Undesignated	750,000	-	1,319,140	17,621	2,086,761
Total fund balance	750,000	772,055	1,319,140	17,621	2,858,816
Total liabilities and fund balances	<u>\$ 750,000</u>	<u>\$ 1,188,295</u>	<u>\$ 1,428,404</u>	<u>\$ 242,805</u>	<u>\$ 3,609,504</u>

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

Nonmajor Debt Service Funds

General Drain	RS&T Debt Service	Settlement Bond	Road Bond Debt Retirement	Building Authority	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 39,903	\$ 5,319	\$ 11,146	\$ 159,422	\$ 5,202	\$ 220,992	\$ 3,181,701
-	-	-	15,101	-	15,101	15,101
-	-	-	-	-	-	-
-	-	-	906	-	906	906
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	648,795
<u>\$ 39,903</u>	<u>\$ 5,319</u>	<u>\$ 11,146</u>	<u>\$ 175,429</u>	<u>\$ 5,202</u>	<u>\$ 236,999</u>	<u>\$ 3,846,503</u>
\$ -	\$ -	\$ -	\$ -		\$ -	\$ 375,727
-	-	-	-	-	-	90,274
-	-	-	-	-	-	257,187
-	-	-	-	-	-	27,500
-	-	-	-	-	-	750,688
-	-	-	-	-	-	92,800
-	-	-	-	-	-	679,255
39,903	5,319	11,146	175,429	5,202	236,999	236,999
-	-	-	-	-	-	2,086,761
<u>39,903</u>	<u>5,319</u>	<u>11,146</u>	<u>175,429</u>	<u>5,202</u>	<u>236,999</u>	<u>3,095,815</u>
<u>\$ 39,903</u>	<u>\$ 5,319</u>	<u>\$ 11,146</u>	<u>\$ 175,429</u>	<u>\$ 5,202</u>	<u>\$ 236,999</u>	<u>\$ 3,846,503</u>

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds					
	Budget Stabilization	Local Roads	Land and Water Conservation	Community Development Block Grant	Total Nonmajor Special Revenue Funds
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	953,249	953,249
State sources	-	2,030,246	20,000	-	2,050,246
Interest income	-	20,784	27,579	-	48,363
Special assessments	-	-	-	-	-
Other	-	242,119	13,910	-	256,029
Total revenues	-	2,293,149	61,489	953,249	3,307,887
Expenditures					
Current:					
Public works	-	3,728,873	-	561,166	4,290,039
Other	-	-	-	-	-
Capital outlay	-	1,884,026	305,695	310,723	2,500,444
Debt service	-	-	-	-	-
Total expenditures	-	5,612,899	305,695	871,889	6,790,483
Excess of Revenues Over (Under)					
Expenditures	-	(3,319,750)	(244,206)	81,360	(3,482,596)
Other Financing Sources (Uses)					
Proceeds from sale of asset	-	-	476,081	-	476,081
Proceeds from refunding bonds	-	-	-	-	-
Bond premium	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	1,904,370	-	-	1,904,370
Transfers out	-	(78,860)	-	(81,360)	(160,220)
Total other financing sources (uses)	-	1,825,510	476,081	(81,360)	2,220,231
Change in Fund Balances	-	(1,494,240)	231,875	-	(1,262,365)
Fund Balances - Beginning of year	750,000	2,266,295	1,087,265	17,621	4,121,181
Fund Balances - End of year	\$ 750,000	\$ 772,055	\$ 1,319,140	\$ 17,621	\$ 2,858,816

Other Financial and Supplemental Information
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

Nonmajor Debt Service Funds

General Drain	RS&T Debt Service	Settlement Bond	Road Bond Debt Retirement	Building Authority	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 1,429,947	\$ 1,099,346	\$ -	\$ -	\$ -	\$ 2,529,293	\$ 2,529,293
-	-	-	-	-	-	953,249
-	-	-	-	-	-	2,050,246
18,761	2,360	6,094	10,451	73	37,739	86,102
-	-	-	16,749	-	16,749	16,749
-	-	-	-	-	-	256,029
1,448,708	1,101,706	6,094	27,200	73	2,583,781	5,891,668
-	-	-	-	-	-	4,290,039
4,923	3,009	250	2,885	726	11,793	11,793
-	-	-	-	-	-	2,500,444
1,420,050	1,096,113	1,712,162	2,521,159	641,639	7,391,123	7,391,123
1,424,973	1,099,122	1,712,412	2,524,044	642,365	7,402,916	14,193,399
23,735	2,584	(1,706,318)	(2,496,844)	(642,292)	(4,819,135)	(8,301,731)
-	-	-	-	-	-	476,081
2,315,000	-	-	3,285,000	2,820,000	8,420,000	8,420,000
4,413	-	-	18,252	69,094	91,759	91,759
(2,325,736)	-	-	(3,300,300)	(2,885,031)	(8,511,067)	(8,511,067)
20,000	-	1,717,464	2,428,860	640,650	4,806,974	6,711,344
-	-	-	-	-	-	(160,220)
13,677	-	1,717,464	2,431,812	644,713	4,807,666	7,027,897
37,412	2,584	11,146	(65,032)	2,421	(11,469)	(1,273,834)
2,491	2,735	-	240,461	2,781	248,468	4,369,649
\$ 39,903	\$ 5,319	\$ 11,146	\$ 175,429	\$ 5,202	\$ 236,999	\$ 3,095,815

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2005

Special Revenue Fund - Budget Stabilization

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 750,000	\$ 750,000	\$ 750,000	\$ -
Resources (Inflows)	-	-	-	-
Fund Balance - End of year	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ -</u>

Special Revenue Fund - Local Roads

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,266,295	\$ 2,266,295	\$ 2,266,295	\$ -
Resources (Inflows)				
Federal sources	20,000	-	-	-
State sources	2,050,000	2,090,000	2,030,246	(59,754)
Charges for services	60,000	210,000	196,971	(13,029)
Other	103,550	45,250	65,932	20,682
Transfer from other funds	<u>1,023,000</u>	<u>1,904,370</u>	<u>1,904,370</u>	<u>-</u>
Total resources (inflows)	3,256,550	4,249,620	4,197,519	52,101
Charges to Appropriations (Outflows)				
Administration	129,700	173,020	180,647	(7,627)
Local street maintenance	2,412,500	4,554,560	4,319,218	235,342
Local street improvements	1,169,000	1,199,000	1,113,034	85,966
Transfer to other funds	<u>78,860</u>	<u>78,860</u>	<u>78,860</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>3,790,060</u>	<u>6,005,440</u>	<u>5,691,759</u>	<u>313,681</u>
Fund Balance - End of year	<u>\$ 1,732,785</u>	<u>\$ 510,475</u>	<u>\$ 772,055</u>	<u>\$ 261,580</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue Fund - Land and Water Conservation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,087,265	\$ 1,087,265	\$ 1,087,265	\$ -
Resources (Inflows)				
Federal and State sources	4,000	20,000	20,000	-
Other	<u>10,000</u>	<u>1,079,130</u>	<u>517,570</u>	<u>(561,560)</u>
Total resources (inflows)	14,000	1,099,130	537,570	(561,560)
Charges to Appropriations (Outflows) - Capital outlay	<u>362,000</u>	<u>937,280</u>	<u>305,695</u>	<u>631,585</u>
Fund Balance - End of year	<u><u>\$ 739,265</u></u>	<u><u>\$ 1,249,115</u></u>	<u><u>\$ 1,319,140</u></u>	<u><u>\$ 70,025</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue Fund - Community Development Block Grant

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 17,621	\$ 17,621	\$ 17,621	\$ -
Resources (Inflows) - Federal sources	828,000	1,020,200	953,249	(66,951)
Charges to Appropriations (Outflows)				
Administrative expenses	15,640	19,030	16,137	2,893
Books	11,200	11,200	11,194	6
Senior Citizens Home Chore and Minor Home Repair Program	35,000	35,000	50,842	(15,842)
Single Parent Education Program	24,000	24,000	23,976	24
Housing Rehabilitation Program	240,000	425,450	446,235	(20,785)
Contributions to Non-Profit Organizations	24,000	24,000	23,976	24
Capital improvements	396,800	400,160	299,529	100,631
Transfers to other funds	81,360	81,360	81,360	-
 Total charges to appropriations (outflows)	 828,000	 1,020,200	 953,249	 66,951
Fund Balance - End of year	<u>\$ 17,621</u>	<u>\$ 17,621</u>	<u>\$ 17,621</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Debt Service Fund - General Drain

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,491	\$ 2,491	\$ 2,491	\$ -
Resources (Inflows)				
Property taxes	1,423,910	1,423,910	1,424,786	876
Other revenue	4,000	18,820	18,761	(59)
Delinquents and penalties	3,500	3,500	5,161	1,661
Bond premiums	-	2,319,410	2,319,413	3
Transfer from other funds	-	20,000	20,000	-
Total resources (inflows)	1,431,410	3,785,640	3,788,121	2,481
Charges to Appropriations (Outflows)				
Other charges	500	106,560	105,659	901
Principal	966,540	3,191,540	3,191,540	-
Interest	464,370	453,510	453,510	-
Total charges to appropriations (outflows)	1,431,410	3,751,610	3,750,709	901
Fund Balance - End of year	\$ 2,491	\$ 36,521	\$ 39,903	\$ 3,382

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Debt Service Fund - RS&T Debt Service

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,735	\$ 2,735	\$ 2,735	\$ -
Resources (Inflows)				
Property taxes	1,094,100	1,095,240	1,095,292	52
Delinquents and penalties	3,000	3,000	4,054	1,054
Other revenue	1,000	2,400	2,360	(40)
Total resources (inflows)	1,098,100	1,100,640	1,101,706	1,066
Charges to Appropriations (Outflows)				
Proposal R	1,098,100	1,099,600	1,099,017	583
Proposal S	-	-	105	(105)
Total charges to appropriations (outflows)	1,098,100	1,099,600	1,099,122	478
Fund Balance - End of year	<u>\$ 2,735</u>	<u>\$ 3,775</u>	<u>\$ 5,319</u>	<u>\$ 1,544</u>

Debt Service Fund - Settlement Bond

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Other revenue	-	6,400	6,094	(306)
Transfer from other funds	1,715,000	1,717,470	1,717,464	(6)
Total resources (inflows)	1,715,000	1,723,870	1,723,558	(312)
Charges to Appropriations (Outflows)				
Principal	800,000	840,000	840,000	-
Interest	915,000	872,170	872,162	8
Other	-	250	250	-
Total charges to appropriations (outflows)	1,715,000	1,712,420	1,712,412	8
Fund Balance - End of year	<u>\$ -</u>	<u>\$ 11,450</u>	<u>\$ 11,146</u>	<u>\$ (304)</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Debt Service Fund - Road Bond Debt Retirement

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 240,461	\$ 240,461	\$ 240,461	\$ -
Resources (Inflows)				
Other revenue	4,000	9,000	9,423	423
Special assessments	30,000	30,000	16,749	(13,251)
Penalties and interest	2,000	2,000	1,028	(972)
Transfer from other funds	2,428,860	2,428,860	2,428,860	-
Proceeds from refunding bonds	-	3,303,250	3,303,252	2
Total resources (inflows)	2,464,860	5,773,110	5,759,312	(13,798)
Charges to Appropriations (Outflows)				
Other	2,030	99,050	98,150	900
Principal	1,885,000	4,985,000	4,985,000	-
Interest	636,160	741,200	741,194	6
Total charges to appropriations (outflows)	2,523,190	5,825,250	5,824,344	906
Fund Balance - End of year	<u><u>\$ 182,131</u></u>	<u><u>\$ 188,321</u></u>	<u><u>\$ 175,429</u></u>	<u><u>\$ (12,892)</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Debt Service Fund - Building Authority

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,781	\$ 2,781	\$ 2,781	\$ -
Resources (Inflows)				
Other revenue	500	100	73	(27)
Transfer from other funds	640,650	640,650	640,650	-
Proceeds from refunding bonds	-	2,889,100	2,889,094	(6)
Total resources (inflows)	641,150	3,529,850	3,529,817	(33)
Charges to Appropriations (Outflows)				
Other	500	103,610	102,499	1,111
Debt service principal	415,000	3,040,000	3,040,000	-
Interest	226,650	384,900	384,897	3
Total charges to appropriations (outflows)	642,150	3,528,510	3,527,396	1,114
Fund Balance - End of year	<u>\$ 1,781</u>	<u>\$ 4,121</u>	<u>\$ 5,202</u>	<u>\$ 1,081</u>

Major Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Capital Projects Funds Year Ended June 30, 2005

Capital Projects Fund - General Improvements

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 3,802,175	\$ 3,802,175	\$ 3,802,175	\$ -
Resources (Inflows)				
Federal, state, and local sources	-	1,170,260	700,279	(469,981)
Fines and forfeitures	-	244,180	325,927	81,747
Penalties and interest	2,000	2,000	3,007	1,007
Proceeds from long-term debt	1,070,000	-	-	-
Other revenue	609,000	1,010,310	1,019,142	8,832
Transfer from other funds	943,980	943,980	943,980	-
Total resources (inflows)	2,624,980	3,370,730	2,992,335	(378,395)
Charges to Appropriations (Outflows)				
Capital equipment	267,980	1,555,130	1,201,619	353,511
Capital vehicles	381,000	1,141,850	933,604	208,246
Capital projects	2,050,000	1,466,790	1,319,123	147,667
Transfer to other funds	-	138,000	138,000	-
Total charges to appropriations (outflows)	2,698,980	4,301,770	3,592,346	709,424
Fund Balance - End of year	\$ 3,728,175	\$ 2,871,135	\$ 3,202,164	\$ 331,029

City of Sterling Heights, Michigan

Other Financial and Supplemental Information (Continued) Budgetary Comparison Schedule - Major Capital Projects Funds Year Ended June 30, 2005

Capital Projects Fund - Road Bond Construction

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 56,433	\$ 56,433	\$ 56,433	\$ -
Resources (Inflows)				
Other revenue	-	45,740	47,541	1,801
Proceeds from LTD	7,880,000	5,300,000	5,300,000	-
Transfer from other funds	-	118,000	118,000	-
Total resources (inflows)	7,880,000	5,463,740	5,465,541	1,801
Charges to Appropriations (Outflows)				
Capital outlay	7,880,000	4,475,980	3,892,609	583,371
Transfer to other funds	-	881,370	881,370	-
Total charges to appropriations (outflows)	7,880,000	5,357,350	4,773,979	583,371
Fund Balance - End of year	<u>\$ 56,433</u>	<u>\$ 162,823</u>	<u>\$ 747,995</u>	<u>\$ 585,172</u>

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

	Trust Funds			
	Pensions and Other Retirement Benefits Funds			
	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Assets				
Cash and cash equivalents	\$ 5,450,195	\$ 8,828,448	\$ 253,870	\$ 14,532,513
Investments - At fair value:				
U.S. government securities	17,335,153	38,516,266	-	55,851,419
Commercial paper	-	-	-	-
Short-term investment funds	-	-	-	-
Corporate bonds	8,761,199	34,522,808	2,371,282	45,655,289
Mutual funds	26,847,377	-	-	26,847,377
Common and preferred stocks	51,048,006	109,863,516	6,383,508	167,295,030
Pooled investments	-	4,845,711	-	4,845,711
Due from other governmental units	-	-	65,175	65,175
Cash and investments held as collateral for securities lending	15,136,842	22,801,952	-	37,938,794
Receivables - Accrued interest	285,682	776,838	-	1,062,520
Other assets	-	479	-	479
Total assets	124,864,454	220,156,018	9,073,835	354,094,307
Liabilities				
Accounts payable	271,525	1,129,916	-	1,401,441
Accrued and other liabilities	1,693,373	3,524,839	6,876	5,225,088
Amounts due to broker under securities lending agreements	15,136,842	22,801,952	-	37,938,794
Due to other governmental units	-	-	381,095	381,095
Provision for uninsured losses and liabilities	-	-	924,646	924,646
Deferred revenue	337	-	-	337
Cash bonds and deposits	-	-	-	-
Total liabilities	17,102,077	27,456,707	1,312,617	45,871,401
Net Assets - Held in trust for pension and other retirement benefits	\$ 107,762,377	\$ 192,699,311	\$ 7,761,218	\$ 308,222,906

Other Financial and Supplemental Information
Combining Statement of Fiduciary Net Assets
Trust and Agency Funds
June 30, 2005

Agency Funds		
Tax Collections	General Agency	Total
\$ 4,838	\$ 2,690,840	\$ 2,695,678
-	-	-
-	1,499,895	1,499,895
-	1,102,629	1,102,629
-	-	-
-	-	-
-	-	-
-	4,070	4,070
-	-	-
-	20,990	20,990
-	-	-
\$ 4,838	\$ 5,318,424	\$ 5,323,262
\$ -	\$ 103,585	\$ 103,585
2,283	1,595,394	1,597,677
-	-	-
2,555	190,754	193,309
-	-	-
-	-	-
-	3,428,691	3,428,691
\$ 4,838	\$ 5,318,424	\$ 5,323,262

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Trust Funds Year Ended June 30, 2005

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 1,073,941	\$ 5,524,342	\$ 222,211	\$ 6,820,494
Net adjustment to fair value of investments	9,572,641	15,347,059	656,351	25,576,051
Less investment expenses	-	(1,009,092)	(67,992)	(1,077,084)
Net investment income (loss)	10,646,582	19,862,309	810,570	31,319,461
Securities lending income:				
Interest and fees	220,335	539,790	-	760,125
Less borrower rebates and bank fees	(208,059)	(496,635)	-	(704,694)
Net securities lending income	12,276	43,155	-	55,431
Contributions:				
Employer	-	4,204,831	3,794,220	7,999,051
Employee	848,390	1,091,930	-	1,940,320
Insurance recovery	-	-	56,430	56,430
Total additions	11,507,248	25,202,225	4,661,220	41,370,693
Deductions				
Benefit payments	3,250,146	9,455,558	4,262,652	16,968,356
Refunds of contributions	117,872	668,839	-	786,711
Total deductions	3,368,018	10,124,397	4,262,652	17,755,067
Net Change in Net Assets	8,139,230	15,077,828	398,568	23,615,626
Net Assets - Beginning of year	99,623,147	177,621,483	7,362,650	284,607,280
Net Assets - End of year	<u>\$ 107,762,377</u>	<u>\$ 192,699,311</u>	<u>\$ 7,761,218</u>	<u>\$ 308,222,906</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	\$ 693	\$ 61,072,058	\$ 61,067,913	\$ 4,838
Liabilities				
Accrued and other liabilities	\$ -	\$ 167,859	\$ 165,576	\$ 2,283
Due to other governmental units	693	88,895,336	88,893,474	2,555
Total liabilities	\$ 693	\$ 89,063,195	\$ 89,059,050	\$ 4,838
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 2,486,675	\$ 14,588,867	\$ 14,384,702	\$ 2,690,840
Investments - At fair value	2,518,200	9,974,196	9,889,872	2,602,524
Receivables - Accrued interest	7,330	293,508	279,848	20,990
Other assets	17	-	17	-
Due from other governmental units	-	17,514,251	17,510,181	4,070
Total assets	\$ 5,012,222	\$ 42,370,822	\$ 42,064,620	\$ 5,318,424
Liabilities				
Accounts payable	\$ 200,483	\$ 2,585,866	\$ 2,682,764	\$ 103,585
Accrued and other liabilities	1,494,731	732,255	631,592	1,595,394
Due to other governmental units	55,734	4,702,285	4,567,265	190,754
Cash and bond deposits	3,261,274	5,999,315	5,831,898	3,428,691
Total liabilities	\$ 5,012,222	\$ 14,019,721	\$ 13,713,519	\$ 5,318,424

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities (Continued) Agency Funds Year Ended June 30, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 2,487,368	\$ 75,660,925	\$ 75,452,615	\$ 2,695,678
Investments - At fair value	2,518,200	9,974,196	9,889,872	2,602,524
Receivables - Accrued interest	7,330	293,508	279,848	20,990
Other assets	17	-	17	-
Due from other governmental units	-	17,514,251	17,510,181	4,070
	<u>-</u>	<u>17,514,251</u>	<u>17,510,181</u>	<u>4,070</u>
Total assets	<u>\$ 5,012,915</u>	<u>\$ 103,442,880</u>	<u>\$ 103,132,533</u>	<u>\$ 5,323,262</u>
Liabilities				
Accounts payable	\$ 200,483	\$ 2,585,866	\$ 2,682,764	\$ 103,585
Accrued and other liabilities	1,494,731	900,114	797,168	1,597,677
Due to other governmental units	56,427	93,597,621	93,460,739	193,309
Cash and bond deposits	3,261,274	5,999,315	5,831,898	3,428,691
	<u>3,261,274</u>	<u>5,999,315</u>	<u>5,831,898</u>	<u>3,428,691</u>
Total liabilities	<u>\$ 5,012,915</u>	<u>\$ 103,082,916</u>	<u>\$ 102,772,569</u>	<u>\$ 5,323,262</u>

City of Sterling Heights, Michigan

Statistical and Continuing Disclosure Contents

Statistical Information

Statistical information contained herein relates to the physical, economic, social, and political characteristics of the City. It is designed to provide a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements, notes, and supporting schedules presented in the financial section.

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Continuing Disclosure

Continuing disclosure information contained herein complies with Rule 15c2-12, a federal regulation promulgated by the Securities and Exchange Commission, designed to improve disclosure practices in the municipal bond market. Municipal bonds issued after July 3, 1995 are subject to this mandatory requirement.

Continuing disclosure requires certain annual financial information and operating data, including audited financial statements for the preceding fiscal year. This information is generally consistent with the information contained or cross-referenced in the official statement relating to the bonds.

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City of Sterling Heights, Michigan

Net Assets by Component Last Four Fiscal Years (Accrual Basis of Accounting)

	Fiscal Year			
	2002	2003	2004	2005
Governmental activities:				
Invested in capital assets - Net of related debt	\$ 149,115,930	\$ 157,319,066	\$ 164,071,091	\$ 165,784,014
Restricted	18,041,590	13,918,356	8,845,442	5,537,300
Unrestricted	27,748,112	29,284,871	(2,714,472)	(3,747,590)
Total governmental activities - Net assets	<u>\$ 194,905,632</u>	<u>\$ 200,522,293</u>	<u>\$ 170,202,061</u>	<u>\$ 167,573,724</u>
Business-type activities:				
Invested in capital assets - Net of related debt	\$ 127,892,311	\$ 131,088,312	\$ 135,546,803	\$ 135,416,064
Restricted	9,064,472	9,286,673	8,525,469	9,029,341
Unrestricted	22,169,256	24,155,268	23,976,948	23,607,368
Total business-type activities - Net assets	<u>\$ 159,126,039</u>	<u>\$ 164,530,253</u>	<u>\$ 168,049,220</u>	<u>\$ 168,052,773</u>
Primary government:				
Invested in capital assets - Net of related debt	\$ 277,008,241	\$ 288,407,378	\$ 299,617,894	\$ 301,200,078
Restricted	27,106,062	23,205,029	17,370,911	14,566,641
Unrestricted	49,917,368	53,440,139	21,262,476	19,859,778
Total primary government - Net assets	<u>\$ 354,031,671</u>	<u>\$ 365,052,546</u>	<u>\$ 338,251,281</u>	<u>\$ 335,626,497</u>

City of Sterling Heights, Michigan

Changes in Net Assets Last Four Fiscal Years (Accrual Basis of Accounting)

	Fiscal Year			
	2002	2003	2004	2005
Expenses				
Governmental activities:				
General government	\$ 7,958,782	\$ 8,710,448	\$ 9,499,251	\$ 9,873,718
41A District Court	2,354,295	2,480,824	2,690,360	2,852,812
Public safety	33,975,838	37,066,435	39,815,539	42,253,545
Public works	22,945,588	22,555,042	22,838,480	25,464,111
Recreation and culture	5,184,217	5,476,196	6,047,819	5,716,243
Interest on long-term debt	2,243,791	2,266,350	2,022,258	2,585,777
Total governmental activities expenses	74,662,511	78,555,295	82,913,707	88,746,206
Business-type activities - Water and sewer	23,004,156	23,267,170	25,829,284	28,142,434
Total primary government expenses	<u>\$ 97,666,667</u>	<u>\$ 101,822,465</u>	<u>\$ 108,742,991</u>	<u>\$ 116,888,640</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 830,931	\$ 709,161	\$ 714,601	\$ 844,263
41A District Court	1,779,233	1,831,676	2,136,354	2,320,411
Public safety	1,394,218	728,790	1,114,300	1,249,154
Public works	4,922,913	3,566,606	3,855,774	6,241,366
Recreation and culture	411,642	425,400	465,391	513,241
Operating grants and contributions	8,803,688	8,811,085	10,284,432	9,547,201
Capital grants and contributions	231,693	1,777,966	3,142,226	1,336,930
Total governmental activities program revenues	18,374,318	17,850,684	21,713,078	22,052,566
Business-type activities - Water and sewer:				
Charges for services	17,625,565	20,563,318	20,385,299	22,619,205
Operating grants and contributions	-	30,806	-	-
Capital grants and contributions	4,385,957	6,847,385	8,430,400	4,911,208
Total business-type activities program revenues	22,011,522	27,441,509	28,815,699	27,530,413
Total primary government program revenues	<u>\$ 40,385,840</u>	<u>\$ 45,292,193</u>	<u>\$ 50,528,777</u>	<u>\$ 49,582,979</u>
Net (expense) revenue				
Governmental activities	\$ (56,288,193)	\$ (60,704,611)	\$ (61,200,629)	\$ (66,693,640)
Business-type activities	(992,634)	4,174,339	2,986,415	(612,021)
Total primary government net expense	<u>\$ (57,280,827)</u>	<u>\$ (56,530,272)</u>	<u>\$ (58,214,214)</u>	<u>\$ (67,305,661)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Property taxes	\$ 44,784,294	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630
State-shared revenues	13,315,069	14,431,298	11,249,778	11,127,156
Interest	1,913,772	2,058,855	709,149	1,155,124
Gain on sale of capital assets	975,870	-	-	105,454
Cable fees and other	1,769,580	3,039,809	1,425,963	1,319,937
Extraordinary item	-	-	(31,000,000)	-
Total governmental activities expenses	62,758,585	66,321,272	30,880,400	64,065,301
Business-type activities - Interest	1,036,590	1,229,875	532,552	615,574
Total primary government	<u>\$ 63,795,175</u>	<u>\$ 67,551,147</u>	<u>\$ 31,412,952</u>	<u>\$ 64,680,875</u>
Change in Net Assets				
Governmental activities	\$ 6,470,392	\$ 5,616,661	\$ (30,320,229)	\$ (2,628,339)
Business-type activities	43,956	5,404,214	3,518,967	3,553
Total primary government	<u>\$ 6,514,348</u>	<u>\$ 11,020,875</u>	<u>\$ (26,801,262)</u>	<u>\$ (2,624,786)</u>

City of Sterling Heights, Michigan

Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Fund:										
Reserved	\$ 601,482	\$ 1,154,870	\$ 613,308	\$ 581,251	\$ 617,242	\$ 528,424	\$ 489,404	\$ 580,930	\$ 593,593	\$ 655,400
Unreserved	<u>10,660,411</u>	<u>11,983,898</u>	<u>14,482,786</u>	<u>16,687,536</u>	<u>14,915,455</u>	<u>15,923,759</u>	<u>17,346,558</u>	<u>17,641,156</u>	<u>19,057,927</u>	<u>13,345,638</u>
Total General Fund	<u>\$ 11,261,893</u>	<u>\$ 13,138,768</u>	<u>\$ 15,096,094</u>	<u>\$ 17,268,787</u>	<u>\$ 15,532,697</u>	<u>\$ 16,452,183</u>	<u>\$ 17,835,962</u>	<u>\$ 18,222,086</u>	<u>\$ 19,651,520</u>	<u>\$ 14,001,038</u>
All other governmental funds:										
Reserved	\$ 151,359	\$ 124,681	\$ 442,252	\$ 1,159,916	\$ 1,690,683	\$ 1,982,635	\$ 679,942	\$ 1,060,623	\$ 1,027,906	\$ 735,565
Unreserved, reported in:										
Special Revenue Funds	7,908,510	6,513,165	9,122,244	15,110,643	17,671,853	17,255,612	20,268,530	15,588,126	10,981,941	5,168,955
Debt Service Funds	1,462,386	1,273,728	1,062,558	949,523	791,593	599,914	545,540	277,483	248,467	236,999
Capital Projects Funds	<u>1,917,246</u>	<u>3,081,002</u>	<u>5,487,619</u>	<u>7,982,621</u>	<u>6,006,021</u>	<u>4,685,906</u>	<u>5,136,412</u>	<u>3,866,901</u>	<u>2,861,154</u>	<u>3,446,888</u>
Total all other governmental funds	<u>\$ 11,439,501</u>	<u>\$ 10,992,576</u>	<u>\$ 16,114,673</u>	<u>\$ 25,202,703</u>	<u>\$ 26,160,150</u>	<u>\$ 24,524,067</u>	<u>\$ 26,630,424</u>	<u>\$ 20,793,133</u>	<u>\$ 15,119,468</u>	<u>\$ 9,588,407</u>

City of Sterling Heights, Michigan

	1996	1997	1998	1999	2000
Revenues					
Property taxes	\$ 34,308,096	\$ 36,103,132	\$ 38,377,602	\$ 39,847,195	\$ 41,266,995
Fees and permits	1,947,437	1,806,845	1,927,254	1,950,414	1,855,159
Federal sources	1,276,555	1,122,709	1,749,186	1,016,601	1,178,322
State and local sources	16,286,704	16,504,292	18,040,933	18,653,817	19,281,979
Fines and forfeitures	1,980,313	2,573,676	2,608,848	2,776,653	2,798,853
Charges for services	5,096,603	5,460,371	5,097,114	5,371,619	5,451,881
Interest income	1,937,449	2,158,734	2,394,710	2,692,819	3,424,163
Special assessments	373,703	598,307	437,830	443,641	319,727
Rental income	808,867	965,417	944,852	1,075,936	1,035,063
Cable revenue	667,533	790,999	673,080	868,817	972,802
Other	2,909,076	876,643	1,944,402	1,231,428	1,388,993
Total revenues	67,592,336	68,961,125	74,195,811	75,928,940	78,973,937
Expenditures					
Current:					
General government	6,589,589	6,851,373	6,938,739	7,030,523	7,663,131
41A District Court	1,888,926	2,026,851	2,072,201	2,044,259	1,999,838
Public safety	26,404,280	27,747,751	27,118,090	26,932,023	28,089,598
Public works	14,167,945	15,346,854	14,503,055	14,885,110	15,456,764
Recreation and culture	3,234,981	3,400,334	3,633,902	3,619,970	3,795,871
General expenditures	2,958,330	2,267,461	2,313,442	2,438,087	2,505,031
Capital outlay	5,982,827	9,841,856	11,658,975	12,500,787	18,815,645
Debt service					
Principal	3,626,446	3,980,745	4,106,116	4,857,770	5,299,440
Interest	2,003,015	1,919,249	1,980,260	1,975,190	1,994,942
Total expenditures	66,856,339	73,382,474	74,324,780	76,283,719	85,620,260
Excess of Revenues Over (Under) Expenditures	735,997	(4,421,349)	(128,969)	(354,779)	(6,646,323)
Other Financing Sources (Uses)					
Long-term financing	3,191,400	4,688,543	4,811,775	9,120,500	7,859,080
Proceeds from sale of fixed assets	-	-	-	-	-
Bond premium	-	-	-	-	-
Net payments to refunded bond escrow agent and bond issuance costs	-	-	-	-	-
Transfers in	2,840,727	4,392,340	9,329,011	10,546,430	10,050,315
Transfers out	(2,840,727)	(4,393,340)	(9,329,011)	(10,546,430)	(10,050,315)
Total other financing sources (uses)	3,191,400	4,687,543	4,811,775	9,120,500	7,859,080
Net Change in Fund Balances - Before extraordinary items	3,927,397	266,194	4,682,806	8,765,721	1,212,757
Extraordinary Items - Lawsuit settlement payments	-	-	-	-	-
Net Change in Fund Balances	\$ 3,927,397	\$ 266,194	\$ 4,682,806	\$ 8,765,721	\$ 1,212,757
Debt Service as a Percentage of Noncapital Expenditures	9.25%	9.29%	9.71%	10.71%	10.92%

(1) Information presented prior to the implementation of GASB No. 34 has been combined to reflect such activity.

**Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)**

2001	2002 (1)	2003	2004	2005
\$ 42,155,402	\$ 44,773,685	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630
2,253,273	1,916,542	2,036,864	2,318,120	2,012,360
1,657,762	1,280,774	752,977	1,629,936	2,069,321
20,293,929	20,676,922	20,161,887	20,176,008	19,607,043
2,781,114	2,299,389	2,587,756	3,069,824	2,995,613
5,791,473	5,514,851	5,875,269	6,334,722	6,695,039
3,509,122	1,921,851	1,760,354	567,049	977,664
164,086	179,973	68,497	372,917	73,776
1,240,272	1,047,761	1,253,148	1,298,796	1,566,845
1,264,214	1,302,183	1,120,768	1,224,778	1,319,937
1,110,088	2,074,758	1,927,055	2,758,591	1,980,022
82,220,735	82,988,689	84,335,885	88,246,251	89,655,250
8,368,507	8,550,972	8,733,703	9,091,026	10,042,438
2,131,093	2,178,525	2,173,817	2,342,220	2,472,160
30,386,650	30,913,608	33,857,315	35,779,556	38,346,169
16,492,407	16,910,029	18,334,751	18,280,775	21,418,948
4,035,209	4,323,476	4,447,809	4,553,035	4,669,116
2,454,301	2,539,196	2,771,249	3,388,336	2,651,054
14,107,920	13,053,333	11,763,846	13,041,634	12,476,405
5,667,440	5,051,381	4,466,382	4,436,681	5,056,539
2,380,172	2,243,791	1,968,669	1,827,203	2,334,584
86,023,699	85,764,311	88,517,541	92,740,466	99,467,413
(3,802,964)	(2,775,622)	(4,181,656)	(4,494,215)	(9,812,163)
4,421,872	1,725,000	4,916,772	30,355,000	13,720,000
-	1,338,442	-	-	476,081
-	-	-	975,374	91,759
-	-	(4,916,772)	(5,075,000)	(8,511,067)
10,389,950	12,319,565	8,807,280	6,462,170	8,354,684
(10,389,950)	(12,319,565)	(8,807,280)	(6,462,170)	(6,639,684)
4,421,872	3,063,442	-	26,255,374	7,491,773
618,908	287,820	(4,181,656)	21,761,159	(2,320,390)
-	-	-	(25,000,000)	(6,000,000)
\$ 618,908	\$ 287,820	\$ (4,181,656)	\$ (3,238,841)	\$ (8,320,390)
11.19%	10.03%	8.38%	7.86%	8.50%

City of Sterling Heights, Michigan

General Government Tax Revenues by Source Last Ten Fiscal Years

Fiscal Year Ended June 30	General Fund Property Taxes				Debt Service Funds Property Taxes			Total All Property Taxes
	Operating	Refuse	Police and Fire	Total	General Drain	RS&T Debt	Total	
			Retirement System			Service		
1996	\$ 23,846,097	\$ 3,456,158	\$ 3,757,672	\$ 31,059,927	\$ 1,001,513	\$ 2,246,656	\$ 3,248,169	\$ 34,308,096
1997	25,563,473	3,534,367	4,180,320	33,278,160	863,481	1,961,491	2,824,972	36,103,132
1998	28,788,728	3,451,184	3,228,325	35,468,238	706,307	2,203,057	2,909,364	38,377,602
1999	30,117,888	3,575,404	2,514,557	36,207,848	1,036,993	2,602,354	3,639,347	39,847,195
2000	31,106,672	3,937,131	2,120,379	37,164,182	1,096,095	3,006,718	4,102,813	41,266,995
2001	31,836,229	4,231,574	2,207,727	38,275,530	818,785	3,061,087	3,879,872	42,155,402
2002	35,424,907	4,396,245	1,579,658	41,400,810	1,295,294	2,077,581	3,372,875	44,773,685
2003	36,500,172	4,660,074	2,746,657	43,906,903	1,435,644	1,448,763	2,884,407	46,791,310
2004	37,409,166	4,881,818	3,564,147	45,855,131	1,536,014	1,104,365	2,640,379	48,495,510
2005	38,420,002	5,203,504	4,204,831	47,828,337	1,429,947	1,099,346	2,529,293	50,357,630

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Tax Levy (1)	Collected Within the Fiscal Year of the Levy		Subsequent Collection of Delinquent Taxes	Total Collections to Date Amount
			Amount	Percentage of Levy		
1995	1996	\$34,152,903	\$ 33,620,727	98.44	\$ 511,536	\$34,132,263
1996	1997	36,028,869	35,529,859	98.61	436,122	35,965,981
1997	1998	38,183,037	37,679,804	98.68	428,812	38,108,616
1998	1999	39,769,794	39,186,402	98.53	533,033	39,719,435
1999	2000	41,262,657	40,512,689	98.18	594,083	41,106,772
2000	2001	42,334,773	41,427,546	97.86	581,589	42,009,135
2001	2002	44,791,080	43,840,834	97.88	602,398	44,443,232
2002	2003	46,900,401	45,827,067	97.71	710,729	46,537,796
2003	2004	48,561,542	47,590,646	98.00	680,399	48,271,045
2004	2005	50,166,920	49,462,142	98.00	679,140	50,141,282
2005	2006	52,325,289 (2)	-	-	-	-

(1) Includes operational, refuse, public improvement, and general drain taxes, but does not include penalty and interest on late payment of taxes.

(2) The estimated tax levy is based on the summer tax receivable schedule. This levy will only change due to STC, MTT, and/or Board of Review adjustments and is included to facilitate continuing disclosure requirements.

Source: City Treasurer's Office

City of Sterling Heights, Michigan

City Direct Rates											
											Macomb County
Operating (1)	Refuse	Police and Fire Retirement System	Drain Debt Service	Public Improvement Debt Service	Total	Macomb Intermediate School District	Macomb Community College	Huron/ Clinton Metro Authority	S.M.A.R.T.	Operating	Drain Debt Service
1996:											
Homestead	8.07170	1.16988	1.27194	0.33970	11.61545	2.03670	1.67570	0.22360	0.33000	4.20000	0.01100
Non-homestead	8.07170	1.16988	1.27194	0.33970	11.61545	2.03670	1.67570	0.22360	0.33000	4.20000	0.01100
1997:											
Homestead	8.20702	1.13469	1.34207	0.27702	11.59000	2.03670	1.64570	0.22360	0.33000	4.20000	0.00900
Non-homestead	8.20702	1.13469	1.34207	0.27702	11.59000	2.03670	1.64570	0.22360	0.33000	4.20000	0.00900
1998:											
Homestead	8.60204	1.03121	0.96462	0.21146	11.47000	2.03670	1.65390	0.22360	0.33000	4.20000	0.00800
Non-homestead	8.60204	1.03121	0.96462	0.21146	11.47000	2.03670	1.65390	0.22360	0.33000	4.20000	0.00800
1999:											
Homestead	8.47965	1.00665	0.70797	0.29230	11.22000	2.03630	1.61340	0.22350	0.32990	4.20000	0.00800
Non-homestead	8.47965	1.00665	0.70797	0.29230	11.22000	2.03630	1.61340	0.22350	0.32990	4.20000	0.00800
2000:											
Homestead	8.26879	1.04657	0.56364	0.29142	10.97000	2.02100	1.58400	0.22180	0.32730	4.20000	0.00800
Non-homestead	8.26879	1.04657	0.56364	0.29142	10.97000	2.02100	1.58400	0.22180	0.32730	4.20000	0.00800
2001:											
Homestead	8.08550	1.07470	0.56070	0.21070	10.72000	2.02100	1.51400	0.22020	0.32730	4.20000	0.00700
Non-homestead	8.08550	1.07470	0.56070	0.21070	10.72000	2.02100	1.51400	0.22020	0.32730	4.20000	0.00700
2002:											
Homestead	8.43430	1.04670	0.37610	0.30700	10.65000	2.00330	1.67070	0.22020	0.32730	4.20000	0.00600
Non-homestead	8.43430	1.04670	0.37610	0.30700	10.65000	2.00330	1.67070	0.22020	0.32730	4.20000	0.00600
2003:											
Homestead	8.29230	1.05870	0.62400	0.32640	10.63000	2.98630	1.69250	0.21700	0.60000	4.20000	0.00580
Non-homestead	8.29230	1.05870	0.62400	0.32640	10.63000	2.98630	1.69250	0.21700	0.60000	4.20000	0.00580
2004:											
Homestead	8.19630	1.06960	0.78090	0.33660	10.62500	2.97290	1.58590	0.21610	0.59730	4.20000	0.00580
Non-homestead	8.19630	1.06960	0.78090	0.33660	10.62500	2.97290	1.58590	0.21610	0.59730	4.20000	0.00580
2005:											
Homestead	8.09570	1.10550	0.89050	0.30160	10.62500	2.96150	1.50020	0.21540	0.59490	4.20000	0.00580
Non-homestead	8.09570	1.10550	0.89050	0.30160	10.62500	2.96150	1.50020	0.21540	0.59490	4.20000	0.00580

(1) City general operating tax rate charter limit equals 12.0 mills.

(2) Sterling Heights taxable valuation is based on 62 percent for Utica Schools and 38 percent for Warren Consolidated Schools for the year ended June 30, 2005.

Source: Municipal Advisory Council of Michigan

Property Tax Rates - Direct and Overlapping Governments Last Ten Fiscal Years

Overlapping Rates										
Utica Community School District (2)				Warren Consolidated School District (2)					Total Direct and Overlapping Rates by Resident's School District	
State Education Tax	Operating/Local	Supplemental	Debt	State Education Tax	Operating/Local	Supplemental	Sinking	Debt	Utica Community	Warren Consolidated
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	9.41760	0.00000	1.00000	29.59245	36.51005
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	47.59245	45.09245
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	9.01060	0.00000	1.00000	29.53500	36.04560
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	47.53500	45.03500
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	8.82660	0.00000	1.00000	29.42220	35.74880
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	47.42220	44.92220
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	8.77760	0.00000	1.00000	29.13110	35.40870
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	47.13110	44.63110
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	8.34560	0.00000	1.00000	28.83210	34.67770
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.83210	44.33210
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.81630	0.00000	1.00000	28.50950	33.82580
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.50950	44.00950
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.89710	0.00000	1.00000	28.57750	33.97460
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.57750	44.07750
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.46620	0.99640	2.50000	29.83160	37.29420
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.99640	2.50000	47.83160	47.82800
5.00000	0.00000	0.00000	3.50000	5.00000	0.00000	7.33420	0.99640	2.35000	28.70300	35.88360
5.00000	18.00000	0.00000	3.50000	5.00000	18.00000	0.00000	0.99640	2.35000	46.70300	46.54940
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	6.76620	0.99640	2.28000	29.60280	36.14540
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.99640	2.28000	47.60280	47.37920

City of Sterling Heights, Michigan

	1996	1997	1998	1999	2000
State Equalized Value (2):					
SEV equivalent	\$ 2,943,368,200	\$ 3,148,025,860	\$ 3,433,720,050	\$ 3,770,255,255	\$ 4,095,828,980
IFT exemption	<u>160,848,300</u>	<u>160,429,400</u>	<u>155,455,150</u>	<u>163,817,900</u>	<u>184,401,100</u>
Total state equalized value	\$ 3,104,216,500	\$ 3,308,455,260	\$ 3,589,175,200	\$ 3,934,073,155	\$ 4,280,230,080

Taxable Value (2):

By Class:

Real property	\$ 2,416,553,250	\$ 2,525,077,351	\$ 2,671,587,302	\$ 2,826,351,500	\$ 2,974,814,700
Personal property	<u>667,898,800</u>	<u>725,297,100</u>	<u>790,037,000</u>	<u>874,346,800</u>	<u>949,326,300</u>
Total value	\$ 3,084,452,050	\$ 3,250,374,451	\$ 3,461,624,302	\$ 3,700,698,300	\$ 3,924,141,000
Total direct tax rate	\$ 11.61545	\$ 11.61545	\$ 11.59000	\$ 11.47000	\$ 11.22000

By Type:

Residential real	\$ 1,746,206,050	\$ 1,834,527,551	\$ 1,946,983,602	\$ 2,068,663,200	\$ 2,192,313,900
Commercial real	363,373,000	366,506,200	387,318,800	404,666,300	420,041,700
Industrial real	252,564,200	269,611,500	296,688,200	312,148,800	335,000,300
Personal property	409,682,700	467,940,900	519,723,400	587,584,200	607,982,900
IFT real and personal property	<u>312,626,100</u>	<u>311,788,300</u>	<u>310,910,300</u>	<u>327,635,800</u>	<u>368,802,200</u>
Total value	3,084,452,050	3,250,374,451	3,461,624,302	3,700,698,300	3,924,141,000
Less exempt property	<u>(160,848,300)</u>	<u>(160,429,400)</u>	<u>(155,455,150)</u>	<u>(163,817,900)</u>	<u>(184,401,100)</u>
Total taxable value	\$ 2,923,603,750	\$ 3,089,945,051	\$ 3,306,169,152	\$ 3,536,880,400	\$ 3,739,739,900

Total taxable value as a % of SEV equivalent	99.33%	98.16%	96.29%	93.81%	91.31%
Total taxable value as a % of total value	94.79%	95.06%	95.51%	95.57%	95.30%

(1) The most recent year figures presented represent estimated final taxable values. Values will only change for MTT, STC, and/or Board of Review adjustments. These estimates have been included to facilitate continuing disclosure reporting.

(2) All State Equalized and Taxable Values reflect the year in which tax revenue streams were generated. For example, the 1995 SEVs (stated above in the 1996 column) were used to generate tax revenue for the year ended June 30, 1996. Subsequently, the values above are actually the prior years' State Equalized or Taxable Values.

**Assessed Taxable Values
(History of Property Values)
Last Ten Fiscal Years**

2001	2002	2003	2004	2005	2006 (1)
\$ 4,384,642,350	\$ 4,786,398,900	\$ 5,272,934,560	\$ 5,553,761,050	\$ 5,754,101,500	\$ 5,997,740,400
205,204,050	261,109,300	259,867,600	226,175,750	221,346,700	225,091,700
\$ 4,589,846,400	\$ 5,047,508,200	\$ 5,532,802,160	\$ 5,779,936,800	\$ 5,975,448,200	\$ 6,222,832,100
\$ 3,145,249,054	\$ 3,356,956,900	\$ 3,587,248,700	\$ 3,764,758,000	\$ 3,970,808,500	\$ 4,195,815,400
979,571,300	1,086,927,400	1,071,358,000	1,025,224,600	968,119,700	949,766,100
\$ 4,124,820,354	\$ 4,443,884,300	\$ 4,658,606,700	\$ 4,789,982,600	\$ 4,938,928,200	\$ 5,145,581,500
\$ 10.97000	\$ 10.72000	\$ 10.65000	\$ 10.63000	\$ 10.62500	\$ 10.62500
\$ 2,329,156,554	\$ 2,502,544,100	\$ 2,685,708,600	\$ 2,820,357,100	\$ 2,990,452,700	\$ 3,151,356,400
446,957,000	465,723,900	496,719,500	529,584,800	548,866,900	588,205,000
343,988,000	359,713,900	373,247,900	383,343,100	397,910,200	416,252,900
594,310,700	593,683,800	583,195,500	607,793,500	567,204,500	548,022,100
410,408,100	522,218,600	519,735,200	448,904,100	434,493,900	441,745,100
4,124,820,354	4,443,884,300	4,658,606,700	4,789,982,600	4,938,928,200	5,145,581,500
(205,204,050)	(261,109,300)	(259,867,600)	(224,452,050)	(217,246,950)	(220,872,550)
\$ 3,919,616,304	\$ 4,182,775,000	\$ 4,398,739,100	\$ 4,565,530,550	\$ 4,721,681,250	\$ 4,924,708,950
89.39%	87.39%	83.42%	82.21%	82.06%	82.11%
95.03%	94.12%	94.42%	95.31%	95.60%	95.71%

City of Sterling Heights, Michigan

Principal Property Taxpayers (Major Taxpayers) Current Year and Nine Years Ago

Company Name	Product/Service	Year Ended June 30, 2005			Year Ended June 30, 1996		
		Taxable Value	Rank	Percent of Total City Taxable Value	Taxable Value	Rank	Percent of Total City Taxable Value
DaimlerChrysler	Automotive assembly and stamping	\$ 239,096,100	1	5.06	\$ 122,031,000	2	4.17
Visteon Corporation	Automotive axles and drive shafts	149,754,550	2	3.17	-	-	-
Ford Motor Company	Automotive manufacturing	100,752,100	3	2.13	165,138,100	1 *	5.65
DTE Energy	Public utility for electricity	36,546,400	4	0.77	37,350,400	3	1.28
Lakeside Associates	Retail shopping center	31,968,600	5	0.68	30,018,000	4	1.03
General Dynamics	Administrative engineering and design	27,823,000	6	0.59	11,515,000	8	0.39
Detroit News	Printing plant - Newspapers	25,848,700	7	0.55	24,408,900	5	0.83
T.R.W.	Auto sub-component assembly	16,669,050	8	0.35	13,788,200	7	0.47
Laurel/Shoal Creek	Office and apartment complex	16,199,100	9	0.34	-	-	-
Ledd's Development	Office and business complex	14,944,700	10	0.32	11,495,800	9	0.39
Consumers Power	Public utility for gas	-	-	-	15,687,000	6	0.54
Meijer	Retail shopping supermarket	-	-	-	10,574,400	10	0.36
	Ten largest taxpayers	659,602,300		13.96	442,006,800		15.11
	Other taxpayers	4,062,078,950			2,481,596,950		
	Total taxable value	\$ 4,721,681,250			\$ 2,923,603,750		

* Visteon Corporation is the result of a corporate spin-off from Ford Motor Company.

Source: City's Assessing Office

City of Sterling Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year Ended June 30	General Obligation Bonds	County Issued Bonds	Amounts Available in Debt Service Funds	Total	Percentage of Estimated Total Taxable Value of Property (1)	Population	Per Capita
1996	\$ 16,384,650	\$ 7,995,850	\$ (954,710)	\$ 23,425,790	0.7934	121,880	\$ 192.20
1997	17,792,430	7,329,854	(643,268)	24,479,016	0.7754	122,380	200.02
1998	17,961,770	6,883,858	(515,436)	24,330,192	0.7086	122,900	197.97
1999	17,510,000	7,392,862	(323,278)	24,579,584	0.6519	123,530	198.98
2000	18,090,000	6,528,423	(255,877)	24,362,546	0.5948	124,471	195.73
2001	14,680,000	10,485,984	(112,528)	25,053,456	0.5714	125,140	200.20
2002	12,180,000	11,319,602	(62,846)	23,436,756	0.4897	125,800	186.30
2003	9,125,000	10,403,220	(15,300)	19,512,920	0.3701	126,470	154.29
2004	33,745,000	9,936,539	(8,007)	43,673,532	0.7864	127,270	343.16
2005	31,735,000	9,060,000	(61,570)	40,733,430	0.7079	128,026	318.17

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the schedule of assessed taxable value for property value data

City of Sterling Heights, Michigan

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities				Business-type Activities	Total Primary Government	Percentage of Personal Income (1)	Population	Per Capita
	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County Issued Bonds	Special Assessment Bonds				
1996	\$ 16,384,650	\$ 13,760,000	\$ 946,550	\$ 7,995,850	\$ 423,450	\$ 39,510,500	N/A	121,880	\$ 324.18
1997	17,792,430	13,150,000	1,840,000	7,329,854	177,600	40,112,284	N/A	122,380	327.77
1998	17,961,770	14,450,000	1,490,000	6,883,858	-	40,785,628	N/A	122,900	331.86
1999	17,510,000	18,885,000	1,340,000	7,392,862	-	45,127,862	N/A	123,530	365.32
2000	18,090,000	21,960,000	1,175,000	6,528,423	-	47,753,423	1.54%	124,471	383.65
2001	14,680,000	20,635,000	975,000	10,485,984	-	46,775,984	1.50%	125,140	373.79
2002	12,180,000	19,175,000	775,000	11,319,602	-	43,449,602	1.38%	125,800	345.39
2003	9,125,000	18,995,000	575,000	10,403,220	-	39,098,220	1.24%	126,470	309.15
2004	33,745,000	15,910,000	350,000	9,936,539	-	59,941,539	1.89%	127,270	470.98
2005	31,735,000	19,735,000	125,000	9,060,000	-	60,655,000	1.90%	128,026	473.77

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the schedule of demographic and economic statistics for personal income data

City of Sterling Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2005

Direct Debt

General Obligation Bonds

05/01/97	Roads	\$ 650,000	
04/21/98	Roads	1,050,000	
05/01/99	Roads	1,325,000	
06/14/04	Judgment Funding, LT	23,555,000	
04/27/05	Limited Tax	<u>2,820,000</u>	\$ 29,400,000

Building Authority Bonds

02/02/00	City Center Commons	625,000	
11/05/03	Judicial Center Refunding, Series 2003	<u>1,710,000</u>	2,335,000

Michigan Transportation Fund Bonds

05/21/91	Bonds	350,000	
06/01/96	Bonds	200,000	
05/01/99	Bonds	3,900,000	
04/18/00	Bonds	600,000	
07/30/02	Refunding Bonds, Series 2002	3,170,000	
12/09/03	Refunding Bonds, Series 2003	2,930,000	
04/05/05	Refunding Bonds, Series 2005	3,285,000	
05/19/05	Bonds	<u>5,300,000</u>	19,735,000

Special Assessment Bonds

05/01/97	Improvements		125,000
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Share of County-issued Drain Bonds

			<u>9,060,000</u>
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Total direct debt outstanding 60,655,000

Less:	MTF Bonds	19,735,000	
	Special Assessment Bonds	<u>125,000</u>	<u>19,860,000</u>

Net direct debt outstanding 40,795,000

Overlapping Debt

42.08%	Utica Community School District	226,735,000	95,410,088
42.13%	Warren Consolidated School District	160,575,000	67,650,248
16.70%	Macomb County at large	56,347,302	9,409,999
16.35%	Macomb Intermediate School District	3,000,000	<u>490,500</u>

Total overlapping debt 172,960,835

Net direct debt outstanding and overlapping debt \$ 213,755,835

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

City of Sterling Heights, Michigan

Legal Debt Margin June 30, 2005

Valuation for debt limit:

2004 State Equalized Value	\$ 5,532,754,800
Addback of Assessed Value Equivalent - 2004 SEV of Act 198 exemptions	<u>442,693,400</u>

Total valuation for debt limit **\$ 5,975,448,200**

Debt limit (10 percent of state equalized valuation and equivalent) (1) \$ 597,544,820

Debt applicable to limit:

Amount of total direct outstanding debt	\$ 60,655,000
Less: Special Assessment Bonds	125,000
Michigan Transportation Fund Bonds	<u>19,735,000</u>

Net debt applicable limit 40,795,000

Legal Debt Margin **\$ 556,749,820**

(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. 1943, as amended by Act 42, P.A. 1960

City of Sterling Heights, Michigan

Legal Debt Margin Information Last Ten Fiscal Years

	Fiscal Year				
	1996	1997	1998	1999	2000
Debt limit	\$ 310,421,650	\$ 330,845,526	\$ 358,917,520	\$ 393,407,316	\$ 428,023,008
Total net debt applicable to limit	<u>(24,380,500)</u>	<u>(25,122,284)</u>	<u>(24,845,628)</u>	<u>(24,902,862)</u>	<u>(24,618,423)</u>
Legal debt margin	<u>\$ 286,041,150</u>	<u>\$ 305,723,242</u>	<u>\$ 334,071,892</u>	<u>\$ 368,504,454</u>	<u>\$ 403,404,585</u>
Total net debt applicable to the limit as a percentage of debt limit	7.85%	7.59%	6.92%	6.33%	5.75%

	Fiscal Year				
	2001	2002	2003	2004	2005
Debt limit	\$ 458,984,640	\$ 504,750,820	\$ 553,280,216	\$ 577,993,680	\$ 597,544,820
Total net debt applicable to limit	<u>(25,165,984)</u>	<u>(23,499,602)</u>	<u>(19,528,220)</u>	<u>(43,681,539)</u>	<u>(40,795,000)</u>
Legal debt margin	<u>\$ 433,818,656</u>	<u>\$ 481,251,218</u>	<u>\$ 533,751,996</u>	<u>\$ 534,312,141</u>	<u>\$ 556,749,820</u>
Total net debt applicable to the limit as a percentage of debt limit	5.48%	4.66%	3.53%	7.56%	6.83%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Building Authority Bonds						
Fiscal Year	Debt Service					Coverage
Ended	Collections	Principal	Interest	Total		
1996	\$ 419,330	\$ 220,000	\$ 198,021	\$ 418,021	1.003	
1997	427,628	245,000	181,353	426,353	1.003	
1998	807,437	545,000	260,663	805,663	1.002	
1999	833,700	625,000	206,950	831,950	1.002	
2000	838,136	620,000	216,173	836,173	1.002	
2001	1,069,510	710,000	357,540	1,067,540	1.002	
2002	1,058,238	725,000	331,535	1,056,535	1.002	
2003	683,173	375,000	306,723	681,723	1.002	
2004	668,476	305,000	288,102	593,102	1.127	
2005	640,723	415,000	226,639	641,639	0.999	
Michigan Transportation Fund Bonds						
Fiscal Year	Debt Service					Coverage
Ended	Collections	Principal	Interest	Total		
1996	\$ 2,395,144	\$ 1,088,450	\$ 796,888	\$ 1,885,338	1.270	
1997	2,386,041	1,221,320	864,012	2,085,332	1.144	
1998	3,033,392	1,298,110	846,096	2,144,206	1.415	
1999	3,037,893	1,311,770	855,830	2,167,600	1.402	
2000	3,198,450	1,315,000	960,470	2,275,470	1.406	
2001	3,049,816	1,525,000	1,100,805	2,625,805	1.162	
2002	3,175,854	1,660,000	1,031,928	2,691,928	1.180	
2003	3,397,164	1,758,227	1,060,828	2,819,055	1.205	
2004	3,655,236	1,855,000	837,354	2,692,354	1.358	
2005	3,530,329	1,885,000	636,159	2,521,159	1.400	
Special Assessment Bonds						
Fiscal Year	Debt Service					Coverage (1)
Ended	Collections	Principal	Interest	Total		
1996	\$ 320,325	\$ 530,000	\$ 69,330	\$ 599,330	0.535	
1997	519,477	570,000	53,994	623,994	0.833	
1998	333,612	350,000	74,252	424,252	0.786	
1999	443,713	150,000	66,908	216,908	2.046	
2000	222,380	165,000	60,136	225,136	0.988	
2001	192,015	200,000	51,963	251,963	0.762	
2002	169,933	200,000	42,694	242,694	0.700	
2003	120,853	200,000	33,188	233,188	0.518	
2004	105,391	225,000	22,875	247,875	0.425	
2005	27,200	225,000	12,338	237,338	0.115	

(1) Customers may choose to make special assessment payments up-front to avoid paying interest to the City, which creates uneven payment streams over the life of the assessment.

City of Sterling Heights, Michigan

Demographic and Economic Statistics Last Six Fiscal Years

Fiscal Year Ended June 30	Estimated Population		Median Age (2)	Education Age 25 or Older (2)		Per Capita Income (2)	Income (in thousands)	Number of Households (3)	Effective Buying	Unemployment Rate (5)
				High School Graduate or Higher	Bachelor's Degree or Higher				Income Per Household (4)	
2000	124,471	(2)	37	84.0%	23.0%	\$ 24,958	\$ 3,106,547	45,594	\$ 53,977	2.5%
2001	125,140	(1)	N/A	N/A	N/A	N/A	3,123,244	46,072	56,200	4.1%
2002	125,800	(1)	N/A	N/A	N/A	N/A	3,139,716	48,775	49,913	4.8%
2003	126,470	(1)	N/A	N/A	N/A	N/A	3,156,438	48,990	51,035	5.3%
2004	127,270	(1)	N/A	N/A	N/A	N/A	3,176,405	49,260	48,933	5.4%
2005	128,026	(1)	N/A	N/A	N/A	N/A	3,195,273	49,405	N/A	5.6%

Sources:

- (1) City of Sterling Heights
- (2) United States Census Bureau - 2000 Census (last reported)
- (3) Southeast Michigan Council of Governments (SEMCOG)
- (4) Effective buying income is defined as money income less personal tax and non-tax payments - a number often referred to as "disposable" or "after tax" income. Data obtained from Sales & Marketing Management, New York, NY. Data for the current year was not available at time of printing.
- (5) Michigan Department of Career Development, Employment Security Agency, Office of Labor Market Information

City of Sterling Heights, Michigan

Miscellaneous Demographics

Population			Labor Characteristics	
2000 U.S. Census	124,471		By Occupation:	Number of Employees
1990 U.S. Census	117,810		Management, professional, and related	22,844
1980 U.S. Census	108,999		Service	7,889
			Sales and office	19,213
			Farming, forestry, and fishing	51
			Construction, extraction, and maintenance	4,927
			Production, transportation, and material moving	9,416
			Total	64,340
Income Characteristics			By Industry:	
Household Income	Number of Households		Agriculture, forestry, fishing, hunting, and mining	53
Less than \$10,000	2,157		Construction	3,226
\$10,000 - \$14,999	1,795		Manufacturing	16,639
\$15,000 - \$24,999	3,749		Wholesale trade	2,471
\$25,000 - \$34,999	4,473		Retail trade	9,105
\$35,000 - \$49,999	6,497		Transportation, warehousing, and utilities	1,583
\$50,000 - \$74,999	10,773		Information	1,475
\$75,000 - \$99,999	8,087		Finance, insurance, real estate, rental, and leasing	4,091
\$100,000 - \$149,999	6,977		Professional, scientific, management, administrative, and waste management services	6,774
\$150,000 or more	1,873		Educational, health, and social services	9,651
			Arts, entertainment, recreation, accommodation, and food services	4,777
			Other professional and related services	2,372
			Public administration	2,123
			Total	64,340
Residential Characteristics			Educational Characteristics	
Single Family	75.21%		Years of School Completed	Persons 25 and Over
Multi Family	21.18%		Less than 9th grade	6.40%
Mobile Homes	3.61%		9th to 12th grade, no diploma	9.60%
			High school graduate	29.20%
			Some college, no degree	23.60%
			Associate's degree	8.20%
			Bachelor's degree	15.70%
			Graduate or professional degree	7.30%
Age Statistics				
Years	1990	2000		
Under 5	6.50%	6.20%		
5 to 19	19.40%	20.30%		
20 to 24	11.20%	6.10%		
25 to 44	33.60%	30.40%		
45 to 64	20.10%	25.20%		
Over 64	9.20%	11.80%		

Source: 2000 United States Census

City of Sterling Heights, Michigan

Principal Employers (Major Employers) Last Fiscal Year and Nine Years Ago

Company Name	Product/Service	Year Ended June 30, 2005			Year Ended June 30, 1996		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
							(1)
DaimlerChrysler	Automotive assembly and stamping	6,875	1	12.49%	6,875	1	
Utica Community Schools	Education	4,150	2	7.54%	4,150	3	
Visteon Corporation	Automotive axles and drive shafts	** 2,800	3	5.09%	-		
Lakeside Associates	Retail shopping center	* 2,500	4	4.54%	2,500	4	
Warren Consolidated Schools	Education	2,200	5	4.00%	2,200	5	
General Dynamics	Defense-related manufacturing	1,425	6	2.59%	1,425	6	
Ford Motor Company	Automotive manufacturing	1,250	7	2.27%	6,500	2	
Detroit News	Printing plant - Newspapers	1,200	8	2.18%	730	8	
MNP	Nut, bolt, and wire manufacturer	1,200	9	2.18%	580	11	
Cadillac Products, Inc.	Plastic bags, sheets, paper	750	10	1.36%	750	7	
T.R.W.	Auto sub-component assembly	720	11	1.31%	570	12	
City of Sterling Heights	Local government	630	12	1.14%	623	10	
Collins & Aikman	Automotive interior	580	13	1.05%	-		
U.S. Farathane Corporation	Paints and finishes	550	14	1.00%	-		
Lamar Modular & Plastics Div.	Plastic injections	389	15	0.71%	-		
Automotive Plastics Technologies	Plumbing, pipe, bottles	-			650	9	
Allied Signal	Safety restraints	-			560	13	
Chivas Products Ltd.	Moldings	-			500	14	
Modular Plastics	Plastic mold	-			330	15	
	Fifteen largest employers	27,219		49.44%	<u>28,943</u>		
	Other employers	<u>27,838</u>		50.56%			
	Total employment	<u>55,057</u>					

* Approximate number of employees, including seasonal help, is 4,000.

** Visteon Corporation is the result of a corporate spin-off from Ford Motor Company.

(1) Information to determine percentage of total employment for ten years prior is not available.

Source: City of Sterling Heights, Chamber of Commerce

City of Sterling Heights, Michigan

Operating Indicators by Function Last Ten Fiscal Years

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Government										
Election Data										
Registered voters	78,441	80,416	81,136	84,437	77,508	77,134	79,426	79,100	79,221	83,461
Voters at polls	21,647	47,645	16,862	30,875	11,604	42,229	9,285	30,309	10,445	45,608
Absentee ballots	14,856	14,430	7,772	8,240	6,639	10,593	6,981	8,908	7,113	14,801
Percent voting	46.54%	77.19%	30.36%	46.32%	23.54%	68.94%	20.48%	49.58%	22.16%	72.38%
41A District Court										
Court Cases										
Civil	2,049	2,044	1,469	1,454	1,526	1,754	2,000	2,300	2,508	2,709
Criminal	7,011	5,561	7,859	8,338	8,488	6,651	5,827	5,920	4,782	3,994
Landlord and tenant	2,007	1,772	1,602	1,705	1,713	1,642	1,930	2,200	2,285	2,203
Small claims	1,222	1,006	745	596	605	639	657	612	610	513
Traffic	28,063	28,838	32,557	33,534	34,571	25,405	20,859	25,044	27,282	25,338
Public Safety										
Police Protection										
Adult arrests	3,904	4,845	3,485	3,585	3,836	3,452	3,198	2,988	2,707	2,406
Civil infractions	11,771	27,350	27,832	26,691	27,087	21,265	14,303	18,450	18,605	23,627
Group A offenses (2)	3,775	9,400	9,095	7,361	7,823	7,379	6,873	6,897	6,260	6,474
Group B offenses (3)	7,827	3,256	3,259	2,753	3,137	3,129	2,808	2,424	3,623	4,170
Injury accidents	1,007	860	906	882	836	804	747	766	884	862
Juvenile arrests	372	453	393	338	349	299	318	225	246	183
OUIL arrests	528	436	441	634	626	593	541	405	412	361
Parking violations	682	2,386	2,221	1,774	1,816	1,918	1,616	2,293	1,696	1,713
Property damage	3,047	3,255	3,251	3,042	3,282	3,476	3,261	3,317	3,637	3,669
Private property damage	1,352	1,699	1,598	1,646	1,663	1,673	1,546	1,419	1,426	1,439
Total traffic violations	17,060	37,555	38,283	35,205	36,301	29,389	24,543	27,012	24,208	26,972
Fire Protection										
Emergency alarms answered	6,865	7,044	7,170	8,080	7,820	7,747	8,425	5,966	9,215	9,292
Fire inspections conducted	3,772	3,708	4,154	4,537	4,482	4,202	4,139	3,871	4,427	3,832
Inspection violations issued	1,024	798	815	2,431	4,071	3,890	3,239	3,225	4,451	3,697
Medical emergencies	4,818	4,995	4,583	5,568	5,052	5,191	5,517	5,888	6,551	6,719
Training hours completed	34,947	35,435	37,081	37,982	35,016	33,798	36,491	32,839	34,583	35,809
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	22,350	18,280	24,900	14,115	12,675	18,810	19,383	14,150	13,980	15,825
Instructional swim attendance	9,850	9,200	8,500	9,130	9,030	8,390	8,281	9,025	9,640	9,592
Instructional rec. attendance	29,140	25,395	24,000	27,090	27,230	26,840	26,620	24,330	24,285	24,970
Nature program attendance	22,940	22,855	24,625	23,450	22,465	22,750	15,460	27,290	28,350	29,362
Senior program attendance	104,050	104,100	74,520	89,230	86,530	89,990	111,120	121,990	126,280	111,020
Special event attendance	7,960	74,751	72,000	54,500	55,710	55,890	68,530	68,480	68,500	71,930
Special recreation program attendance	18,740	14,600	12,560	13,860	13,820	13,880	15,585	15,700	15,870	15,895
Summer playground attendance	28,460	26,700	23,000	21,580	18,775	21,250	21,097	19,120	15,600	11,646
Youth athletics attendance	64,850	55,250	53,000	55,000	66,840	45,930	45,064	56,035	56,080	53,325
Library										
Book Van deliveries	9,661	10,213	10,181	10,771	9,125	8,098	9,126	9,759	12,623	12,844
Community meeting room reservations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	295	150
In-house materials usage	N/A	N/A	N/A	N/A	N/A	N/A	N/A	190,771	159,897	139,897
Interlibrary loan requests	11,496	15,502	23,212	23,448	17,869	17,995	45,832	86,855	88,657	99,078
Interlibrary loans - Lent	N/A	N/A	N/A	N/A	N/A	N/A	N/A	70,782	75,931	89,405
Items circulated	666,570	657,931	662,773	635,697	540,720	447,240	690,262	687,070	662,579	641,730
Library visits	321,248	334,486	300,173	283,793	219,708	193,505	296,249	309,531	371,398	388,706
Online computer uses	101,402	204,784	222,750	248,273	211,267	170,452	187,950	296,414	357,869	441,111
Program attendance	10,304	7,597	7,734	13,659	11,045	14,687	24,004	23,046	22,034	22,780
Reference transactions	140,112	140,645	127,555	111,985	102,602	95,289	135,514	137,941	132,104	141,056
Registered borrowers	56,127	56,263	56,590	56,969	52,616	53,680	53,822	53,435	53,476	57,050

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Water and Sewer Services										
Customers:										
Residential	31,134	31,645	32,153	32,512	33,048	33,495	34,049	34,302	34,529	34,535
Commercial/Industrial	2,842	2,899	3,000	3,284	3,266	3,367	3,534	3,582	3,741	4,185
Water (in thousand cubic feet):										
Purchased from Detroit	829,331	829,719	859,619	888,703	865,058	847,075	843,530	885,283	828,398	867,931
Sold to residents	836,612	842,336	825,387	923,840	887,265	800,654	845,667	881,780	815,645	811,252
Rates (per thousand):										
1,000 CU. FT.	\$ 16.62	\$ 17.03	\$ 17.03	\$ 17.54	\$ 18.07	\$ 18.94	\$ 20.72	\$ 22.77	\$ 22.72	\$ 25.42
Next 2,000 CU.FT.	\$ 15.31	\$ 15.69	\$ 15.69	\$ 16.16	\$ 16.64	\$ 17.44	\$ 19.08	\$ 21.28	(1)	(1)
Over 3,000 CU.FT.	\$ 14.07	\$ 14.41	\$ 14.41	\$ 15.12	\$ 15.69	\$ 16.45	\$ 18.01	\$ 20.57	(1)	(1)
Sewer only - Per billing	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00

(1) Effective July 1, 2004, the City instituted a single-tier rate structure.

(2) Aggravated assault, arson, burglary, criminal sexual conduct and murder, larceny, motor vehicle theft, robbery, etc.

(3) Assault, disorderly conduct, family trouble, negligent homicide, obstructing justice, etc.

City of Sterling Heights, Michigan

Capital Asset Statistics by Function Last Ten Fiscal Years

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Government										
Buildings										
City Center Commons	1	1	1	1	1	1	1	1	1	1
41A District Court	1	1	1	1	1	1	1	1	1	1
Public Safety										
Police Protection										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles - Marked	43	44	44	45	45	48	48	48	48	49
Vehicles - Unmarked	68	68	68	68	68	68	68	68	68	68
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	10	10	10	10	10	11	12	13	14	14
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	58	58	58	58	59	60	60	60	60	60
Secondary streets	266	273	279	280	282	281	282	285	285	286
Sidewalks	236	526	527	529	532	535	537	565	565	566
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,172	2,163	2,168	2,290	2,290	2,474	2,490	2,495	2,475	2,472
Vehicles - Snow plows	15	17	19	19	20	21	21	21	21	21
Water and Sewer Services										
Fire hydrants	5,500	5,650	5,720	5,901	6,033	6,488	6,597	6,633	6,796	6,932
Miles of water mains	490	490	499	518	525	535	544	554	558	563
Miles of sanitary sewers	380	380	387	401	406	412	415	415	422	424
Recreation and Culture										
Parks and Recreation										
Acres	800	800	800	800	800	810	811	820	820	820
Developed parks	25	25	25	25	25	26	27	28	28	28
Buildings	2	3	3	3	3	3	3	3	3	3
Library										
Book collections	184,138	187,932	189,596	182,015	183,167	215,840	191,481	197,472	186,992	189,822
Other collections (1)	13,517	16,138	19,666	20,528	23,198	24,786	25,442	28,250	24,622	23,937
Buildings	1	1	1	1	1	1	1	1	1	1
Vehicles - Library van	1	1	1	1	1	1	1	1	1	1

(1) Includes art prints, audio/video cassettes, compact discs, posters, puppets, software discs, etc.

City of Sterling Heights, Michigan

Building Permits Last Ten Fiscal Years at Market Value

Fiscal Year Ended June 30	Residential						Total Residential	
	New Construction			Additions/Improvements				
	Number	Value		Number	Value			
1996	680	\$	67,433,435	1,034	\$	3,911,022	\$	71,344,457
1997	519		52,033,967	1,341		4,680,091		56,714,058
1998	613		70,925,657	1,229		5,018,127		75,943,784
1999	450		55,025,833	1,499		5,170,833		60,196,666
2000	304		38,156,806	1,864		6,261,197		44,418,003
2001	414		63,789,140	2,266		9,055,033		72,844,173
2002	513		51,306,550	1,766		2,737,615		54,044,165
2003	763		76,609,958	1,078		3,017,213		79,627,171
2004	631		59,756,113	787		2,218,100		61,974,213
2005	546		54,325,044	876		1,830,299		56,155,343

Fiscal Year Ended June 30	Commercial						Total Commercial	
	New Construction			Additions/Improvements				
	Number	Value		Number	Value			
1996	50	\$	41,871,378	171	\$	26,378,603	\$	68,249,981
1997	53		42,132,080	255		16,897,874		59,029,954
1998	43		28,833,159	255		21,239,729		50,072,888
1999	36		39,098,478	277		22,097,699		61,196,177
2000	68		31,976,338	237		28,031,281		60,007,619
2001	96		40,493,780	156		20,199,408		60,693,188
2002	42		25,736,795	295		16,143,812		41,880,607
2003	19		17,228,169	265		18,095,804		35,323,973
2004	29		28,123,162	272		59,264,545		87,387,707
2005	31		34,143,253	271		26,257,489		60,400,742

Source: City Office of Building Services

City of Sterling Heights, Michigan

Full-time Equivalent City Government Employees by Function Last Ten Fiscal Years

	Full-time and Part-time Employees as of June 30									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Function										
General government	95	93	93	95	96	99	99	99	97	95
41A District Court	37	38	38	37	37	37	37	37	36	38
Public safety:										
Police	259	257	254	265	265	266	266	263	259	258
Fire	107	107	107	107	107	107	114	111	107	107
Public Works:										
City development	49	48	46	49	50	50	51	51	50	50
Public works	43	43	43	55	56	56	57	45	43	43
Street services	23	23	23	23	23	23	23	23	23	23
Recreation and culture:										
Parks and recreation	16	16	16	16	16	16	16	16	16	16
Library	42	42	42	42	42	42	42	42	41	41
Water and sewer	41	41	42	41	41	41	41	41	41	41
Total	<u>712</u>	<u>708</u>	<u>704</u>	<u>730</u>	<u>733</u>	<u>737</u>	<u>746</u>	<u>728</u>	<u>713</u>	<u>712</u>

City of Sterling Heights, Michigan

State-shared Revenues Last Ten Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Modified Accrual Basis of Accounting</u>	<u>Accrual Basis of Accounting</u>
1996	\$ 10,445,148	N/A
1997	10,969,545	N/A
1998	11,274,771	N/A
1999	12,040,644	N/A
2000	12,489,726	N/A
2001	13,329,919	N/A
2002	13,315,069	\$ 13,315,069
2003	12,253,193	13,114,050
2004	11,405,282	11,249,778
2005	11,072,350	11,127,156

Gas and Weight Taxes Last Ten Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Type of Street</u>		<u>Total Gas and Weight Tax (Act 51) Receipts</u>
	<u>Major Roads</u>	<u>Local Roads</u>	
1996	\$ 3,490,236	\$ 1,300,051	\$ 4,790,287
1997	3,474,640	1,297,442	4,772,082
1998	4,206,150	1,860,634	6,066,784
1999	4,408,865	1,666,920	6,075,785
2000	4,642,820	1,754,080	6,396,900
2001	4,647,631	1,452,001	6,099,632
2002	4,836,746	1,514,962	6,351,708
2003	4,937,259	1,857,068	6,794,327
2004	5,308,588	2,001,883	7,310,471
2005	5,124,980	1,935,678	7,060,658

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements June 30, 2005

Name	Contract Expiration Date	Actual Number of Employees Covered
Union Employees		
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2007	115
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2006	28
Emergency Dispatchers Police Officers Association of Michigan (POAM)	6/30/2007	23
Department of Public Works Field Employees Teamsters, Local 214	6/30/2007	70
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2007	9
Firefighters International Association of Firefighters, Local 1557	6/30/2007	101
Police Officers Michigan Association of Police (MAP)	6/30/2006	131
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2007	38
Court Clerical AFSCME, Local 1884, Council 25	6/30/2006	23
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	6/30/2008	59
Supervisory Employees United Auto Workers, Unit 41, Local 412	6/30/2006	23
Executive Employees Michigan Association of Public Employees (MAPE)	6/30/2008	6
Nonunion Employees		
City Manager	N/A	1
41A District Court Judges	N/A	3
41A District Court Administration	N/A	10

Source: City of Sterling Heights

City of Sterling Heights, Michigan

**Federal Awards
Supplemental Information
June 30, 2005**

City of Sterling Heights, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the basic financial statements of the City of Sterling Heights, Michigan for the year ended June 30, 2005 and have issued our report thereon dated September 23, 2005. Those basic financial statements are the responsibility of the management of the City of Sterling Heights, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Sterling Heights, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 23, 2005



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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the financial statements of the City of Sterling Heights, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated September 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sterling Heights, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sterling Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

This report is intended solely for the information and use of management, the city council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 23, 2005

Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Compliance

We have audited the compliance of the City of Sterling Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The major federal programs of the City of Sterling Heights, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Sterling Heights, Michigan's management. Our responsibility is to express an opinion on the City of Sterling Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sterling Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Sterling Heights, Michigan's compliance with those requirements.

In our opinion, the City of Sterling Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Internal Control Over Compliance

The management of the City of Sterling Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sterling Heights, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the city council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 23, 2005

City of Sterling Heights, Michigan

Federal Agency/Pass-through Agency/ Program Titles	CFDA Number	Pass-through Entity Project/Grant Number
U.S. Department of Housing and Urban Development Community Development Block Grant - Program year: 2003-2004 B-03-MC-260014 2004-2005 B-04-MC-260014	14.218 *	N/A N/A
Total U.S. Department of Housing and Urban Development		
U.S. Department of Homeland Security f/k/a Federal Emergency Management Agency: Assistance to Firefighters Grant - 2003 - 12/15/03-12/14/04	97.044	EMW-2003-FG-17144
Passed through the Michigan Department of Labor and Economic Development - Citizens Corp. Grant	97.053	MCSC/ODPMCC/F-38/04
Passed through the Michigan Department of State Police: Emergency Management Division - Emergency Management Performance Grant - Program year: 10/01/03-9/30/04 10/01/03-9/30/04 Supplemental 10/01/04-9/30/05	97.042	N/A N/A N/A
Total Emergency Management Performance Grant		
State and Local All Hazards Emergency Operations Planning - 2002 Supplemental Funds Amended Grant Agreement - Program year - 12/16/02-10/15/04	97.051	FY02-EMD/TPSG/EX
State Domestic Preparedness Equipment - Support Program - Program year: 2003 - 5/01/03-12/31/03 (Fire equip. extended 06/04/03) 2003 - 5/01/03-12/31/03 (OEM equip. extended 06/04/03) 2004 Homeland Security Grant Program	97.004	N/A N/A N/A
Total State Domestic Preparedness Equipment Support Program		
2003 State Homeland Security Grant Program: Part II Training Grant, 03/01/04 - 2/28/05 Part II Training Grant - RRTN 03/01/04 - 2/28/05 2003 Part II Training Grant 03/01/04 - 10/31/05	97.004 *	N/A N/A N/A
Total 2003 State Homeland Security Grant Program		
State and Local Domestic Preparedness Exercise Support - State Domestic Preparedness Program - Program year - 2003 - 4/01/03-3/31/05	97.006	2003-TE-TX-0202

* Major program

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005**

Award Amount	Federal Expenditures
\$ 851,000	\$ 485,227
<u>828,000</u>	<u>456,122</u>
1,679,000	941,349
15,096	795
50,000	18,097
35,230	8,808
197	197
<u>36,530</u>	<u>27,397</u>
71,957	36,402
35,000	35,000
50,000	47,912
89,766	58,428
<u>683,134</u>	<u>389,943</u>
822,900	496,283
78,375	54,791
23,622	23,622
<u>6,160</u>	<u>6,160</u>
108,157	84,573
17,000	15,197

City of Sterling Heights, Michigan

Federal Agency/Pass-through Agency/ Program Titles	CFDA Number	Pass-through Entity Project/Grant Number
U.S. Department of Homeland Security f/k/a Federal Emergency Management Agency (Continued): Passed through the Michigan Department of State Police (Continued): State and Local Domestic Preparedness Technical Assistance - Solutions Area Planner - Program year - Part II - 01/01/04-4/30/05	97.007	N/A
Total passed through the Michigan Department of State Police		
Total U.S. Department of Homeland Security f/k/a Federal Emergency Management Agency		
U.S. Department of Justice: Local Law Enforcement Block Grants: Program year 2004	16.592	2004-LB-BX-0862
Passed through the Macomb County Department of Emergency Management - Interoperable Communications Equipment Grant - Program year - 09/01/04 - 08/31/05	97.055	2004 INWX0011
Passed through the Drug Enforcement Agency: Federal Asset Forfeiture Program State and Local Task Force	16.000 *	N/A N/A
Total passed through the Drug Enforcement Agency		
Total U.S. Department of Justice		
U.S. Department of Transportation - National Highway Traffic Safety Administration - Passed through the Michigan State Police - Emergency Management Division State Domestic Preparedness Equipment Grant (SDPEG): Police - Macomb County Alcohol Enforcement: 2003/2004 2004/2005	20.601	38-6004868
Total Alcohol Enforcement		
Belt Enforcement - Program year: 2003/2004 2004/2005	20.600	N/A N/A
Total Belt Enforcement		
Total U.S. Department of Transportation		

* Major program

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2005

Award Amount	Federal Expenditures
<u>\$ 43,000</u>	<u>\$ 43,000</u>
<u>1,098,014</u>	<u>710,455</u>
1,163,110	729,347
20,777	20,902
101,434	101,434
194,938	194,938
<u>15,976</u>	<u>15,976</u>
<u>210,914</u>	<u>210,914</u>
333,125	333,250
8,447	6,025
<u>4,515</u>	<u>4,515</u>
12,962	10,540
25,018	13,072
<u>15,297</u>	<u>15,297</u>
<u>40,315</u>	<u>28,369</u>
53,277	38,909

City of Sterling Heights, Michigan

Federal Agency/Pass-through Agency/ Program Titles	CFDA Number	Pass-through Entity Project/Grant Number
U.S. Department of Agriculture - Passed through the State of Michigan Department of Natural Resources - Emerald Ash Borer Tree Planting Grant - Program year - 2004 - 04/01/04 - 05/31/05	10.664	EAB 04-42
Total federal awards		

* Major program

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2005

<u>Award Amount</u>	<u>Federal Expenditures</u>
\$ 20,000	\$ 19,500
<u>\$ 3,248,512</u>	<u>\$ 2,062,355</u>

City of Sterling Heights, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 2,069,321
Expenditures from prior year received in current year	<u>(6,966)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 2,062,355</u></u>

City of Sterling Heights, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Sterling Heights, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal expenditures under the U.S. Department of Housing and Urban Development - Community Development Block Grants and the U.S. Department of Justice - Local Law Enforcement Block Grants include expenditures of program income. Therefore, the amount expended may be greater than the award amount for the applicable program year.

City of Sterling Heights, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grant
16.000	Federal Asset Forfeiture Program
97.004	Homeland Security Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

City of Sterling Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None



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September 23, 2005

Honorable Mayor and Members of the City Council
City of Sterling Heights
40555 Utica Road
P.O. Box 8009
Sterling Heights, MI 48311-8009

Dear Mayor and Council Members:

We have recently completed our audit of the governmental activities, business type activities, the aggregate discretely presented component unit information, each major fund and the aggregate remaining fund information of the City of Sterling Heights for the year ended June 30, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

Overall, the City continues to maintain appropriate and safe fund balance levels, while operating with a total overall millage rate which is one of the lowest in the County. For the year ended June 30, 2005, the City continued to demonstrate controlled spending as total General Fund expenditures of \$81.7 million were approximately 1 percent less than the total amount budgeted. This small budget to actual variance serves as a strong indicator of the City's ability to manage its finances.

As of June 30, 2005, the cumulative fund balance of the General Fund was approximately \$14 million. The City's undesignated portion of fund balance represents approximately 15% of budgeted expenditures, which continues to be within the minimum range expected by bond rating agencies. In addition, the past funding of the Budget Stabilization Fund provides the City with additional security during times of economic uncertainty. Decreasing revenue sources (i.e., State Shared Revenue) and increasing expenditures (i.e., health care obligations) have resulted in a challenging economic environment for all communities. We believe that on-going attention to both short and long-term financial objectives will enable the City of Sterling Heights to maintain its well established financial position.

AUDIT RESULTS

As in previous years, we have issued an "unqualified" audit opinion letter on the City's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. An unqualified opinion is the highest level of assurance permitted by our profession and the



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wording contained in our opinion letter is prescribed by the American Institute of Certified Public Accountants (AICPA). Thus, although our independent auditor's opinion included in the CAFR is the best possible opinion a financial statement could receive, it does not permit us to provide general comment on the quality of the City's accounting records and controls. We feel that it is important to note that we found the overall quality of the City's financial records to be excellent. The advance audit preparation performed by the City's Financial Services Department enabled us to reduce our annual audit fee by \$5,000. The City continues to prepare and issue its audited financial statements in a time frame which is considered a "best practice" in the governmental arena. Auditing standards require us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed - no such adjustments were detected. We would like to compliment the City Council and the staff of Financial Services on their efforts to maintain the City's records and accountability.

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

As indicated in last year's letter to Council, the Governmental Accounting Standards Board has issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. As a result of this standard, the City will be required to have an Actuary determine the minimum liability required to fund its post-employment benefit obligation. This minimum liability will need to be ratably funded by communities over an approximate 20-plus year time-frame. In preparation of this new standard, the City has already had a preliminary evaluation of the liability completed by an actuary and has started to set funds aside to reduce the future impact of the liability. Although a portion of this liability has been pre-funded, it is likely that the annual contribution as required by the Actuary will result in significant additional annual expenditures for the City. The financial statement disclosure related to this pronouncement takes effect during the City's 2007-2008 fiscal year. We recommend that the City continue its proactive efforts to monitor and fund its post-employment benefit obligations.

OTHER PRONOUNCEMENTS

Effective for the City's 2004/2005 fiscal year, the Governmental Accounting Standards Board required the implementation of Statement Number 40, *Deposit and Investment Risk Disclosures*. This Statement required certain disclosures of the common risks associated with deposits and investments, focusing on investments that have fair values that are highly sensitive to changes in interest rates. It is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. As a result of this pronouncement, the investment footnote in the financial statements has changed dramatically. We would like to complement the City successfully implementing this challenging Statement.

Effective for the year ended June 30, 2005, the City completed early implementation of the Governmental Accounting Standards Board Statement Number 44, *Statistical Section*. This Statement substantially changes the required disclosure in the Statistical Section of the financial statements. We would like to complement the City on their continued success as a leader in financial statement reporting among municipalities.

DRUG FORFEITURE FUND

Beginning fiscal 2005/2006, the City plans to create a new special revenue fund to help account for both Federal and State drug forfeiture funds. The new fund is intended to segregate the drug forfeiture funds to improve the accounting and administration required to monitor these funds. We support the City in their effort to improve the monitoring of these funds.

STATE REVENUE SHARING

As of the date of this letter, it is anticipated that total constitutional and statutory revenue sharing will remain at approximately \$1.1 billion, which is basically the same as the fiscal year 2004/2005 funding level. Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would have actually supported an increase to total state shared revenue payments. For fiscal years 2004/2005 and 2005/2006, the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. We will continue to update the City as developments occur.

CONCLUSION

As you are aware, Plante & Moran serves as auditors to more communities in Michigan than any other public accounting firm. From our perspective as the City's Independent Auditor, the residents of the City of Sterling Heights benefit from living in a community with strong financial management and appropriate cash reserves. We believe the City has been able to offer a very high level of resident services; while still maintaining some of the lowest tax rates, debt levels and water and sewer rates in the County. Rising health care costs and the funding of post employment benefit obligations are clearly the largest financial challenges facing communities today. In light of these challenges, continued emphasis on long-term financial planning is essential to preserve the City's hard earned financial stability for future generations.

Honorable Mayor and
Members of the City Council
City of Sterling Heights

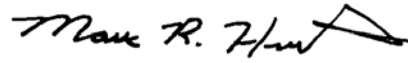
-4-

September 23, 2005

We would like to thank Mr. Baker, Ms. Reinhart, Mr. Sanborn and the Financial Services department staff for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Mark R. Hurst", with a stylized flourish at the end.

Mark R. Hurst